



**India First.  
India's First.**

Annual Report  
**2016**



**Varun Beverages Limited**  
(Subsidiary Companies)

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NEPAL

# Directors' Report

The Director have pleasure in presenting the 1<sup>st</sup> Jan, 2016 to 31<sup>st</sup> Dec, 2016 Report together with the accounts of the Company for the period ending 31<sup>st</sup> Dec, 2016.

## FINANCIAL RESULTS

	(Rs. Million)	
	Current Year	Previous Year
Income	4831.12	3682.80
Profit before Interest & Depreciation	761.65	541.51
Interest	55.92	75.05
Depreciation	96.74	99.64
Net Profit/(Loss)	524.36	213.25
Cash Profit	621.10	312.89

## OPERATION

This year Income is Rs. 4831.12 Millions which is showing increase from Rs. 3682.80 Millions in previous year. This happened because of proper plan and execution by the team. Since we have provisioned for contingent liability of Rs. 104.70 Millions against different cases related to Govt. dues so this year. Cash Profit is Rs. 621.10 millions and showing increase from Rs. 312.89 Millions in previous year as well as this year Net Profit is Rs. 524.36 millions and showing increase from Rs. 213.25 Millions in previous year.

Our performance is still not up to plan and will do better in coming years.

## PROSPECTS

Our Company's Prospects in the current financial year was good, as market has well accepted company's product. The company has made efforts to reach the product in various new outlets which have also started yielding results. Further, the company opened new small distributor points at various places in Kathmandu valley to expand distribution reach as well as tap virgin markets. This focus would continue current year also. 250 ML & PET products have a huge market in the country and with these products we will be able to capture more market share of soft drink industry. Our Company is also going to set up its Unit-II in Sukrouli VDC-9, Nawalparasi for smooth operation in Terai Area.

## ACKNOWLEDGEMENT

The directors wish to place on record their deep appreciation made by the employees at all levels of operations of the company. The Company is grateful for the support and co-operation of Government of Nepal and the bankers of the Company.

For and on behalf of the Board

**Amit Gupta**

Director of the Company

# Independent Auditor's Report

## To the Shareholders of Varun Beverages (Nepal) Pvt. Ltd.

We have audited the accompanying financial statements of Varun Beverages (Nepal) Pvt. Ltd. which comprise the Statement of Financial Position as at December 31, 2016 and the related Statement of Profit or Loss, Statement of Changes in Equity and Statement of Cash Flows for the Period ended on that date.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of the company is responsible for the preparation and fair presentation of these financial Statements in accordance with Accounting Standards and Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal control relevant to Company's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

### OPINION

In our opinion, the accompanying financial statements give a true and fair view, in all material respects the financial position of Varun Beverages (Nepal) Pvt. Ltd. as at December 31, 2016 and of the results of its Financial performance and its cash flows for the period then ended and in accordance with Accounting Standards and Companies Act.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the basis of our examination and explanations given to us, we would like to report that:

- i. We have obtained all the information and explanations, which were considered necessary for the purpose for our audit.
- ii. Company has kept proper books of accounts as required by law, in so far as it appears from our examination of those books of account.
- iii. The Statement of Financial Position, Statement of Profit or Loss, Statement of Cash Flow Statement of Changes in Equity dealt with by this report is in agreement with the books of account maintained by the Company.
- iv. During our examination of the books of account of the Company, we have not come across the cases where the Board of Directors or any member of there or any representative or any office holder or any employee of the Company has acted contrary to the provisions of law or caused loss or damage to the Company, and
- v. We have not come across any fraudulence in the accounts.

For: **SUBHASH & CO.**  
Chartered Accountant

Place: Kathmandu  
Date: February 10, 2017

**CA. S. K. Jhunjunwala**  
Partner

# Balance Sheet

As At December 31, 2016

Particulars	Note	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Equity and liabilities</b>			
Shareholders' funds			
Share Capital	2	76,250,000	76,250,000
Reserves & Surplus	3	580,128,734	448,836,071
		<b>656,378,734</b>	<b>525,086,071</b>
<b>Non-current liabilities</b>			
Long-Term Borrowings	4	-	-
Deferred Tax Liabilities/(Asset) (Net)	5	(54,316,738)	(41,445,650)
Other Long-Term Liabilities	6	227,783,684	177,348,023
Long-Term Provisions	7	52,771,645	49,140,931
		<b>226,238,590</b>	<b>185,043,303</b>
<b>Current Liabilities</b>			
Short-Term Borrowings	8	1,287,697,123	993,765,145
Trade Payables	9	461,537,330	383,039,718
Other Current Liabilities	10	587,563,777	516,431,719
Short-Term Provisions	11	7,992,834	295,049,548
		<b>2,344,791,063</b>	<b>2,188,286,130</b>
		<b>3,227,408,388</b>	<b>2,898,415,504</b>
<b>Assets</b>			
<b>Non-Current Assets</b>			
Fixed Assets			
Tangible Assets	12	1,034,101,944	990,592,485
Intangible Assets	13	-	-
Capital Work-In-Progress	14	129,984,280	94,252,498
Non-Current Investments	15	-	-
Long-Term Loans and Advances	16	52,385,492	33,494,952
Other Non-Current Assets	17	-	8,129,003
		<b>1,216,471,716</b>	<b>1,126,468,938</b>
<b>Current Assets</b>			
Current investments	18	-	-
Inventories	19	408,763,040	233,752,357
Trade Receivables	20	95,862,550	54,920,590
Cash and Bank Balances	21	533,229,132	544,606,776
Short-Term Loans and Advances	22	961,421,583	928,343,088
Other Current Assets	23	11,660,367	10,323,756
		<b>2,010,936,672</b>	<b>1,771,946,567</b>
		<b>3,227,408,388</b>	<b>2,898,415,504</b>
Significant Accounting Policies	1		

The Accompanying Notes form an integral part of the financial statements.

In terms of our report of even date annexed

## SUBHASH & CO.

Chartered Accountants

**CA. S.K. Jhunjunwala**

Partner

**Amit Gupta**

Director

**Ashok Kumar**

Director

Place : Kathmandu

Dated : February 10, 2017

# Statement of Profit and Loss

For the year ended December 31, 2016

Particulars	Note	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Revenue</b>			
Revenue From Operations (Gross)	24	5,308,681,993	4,063,118,579
Less: Excise duty		529,413,924	411,882,013
Revenue From Operations (Net)		<b>4,779,268,068</b>	<b>3,651,236,565</b>
Other Income	25	51,851,766	30,789,465
<b>Total Revenue</b>		<b>4,831,119,834</b>	<b>3,682,026,031</b>
<b>Expenses</b>			
Cost of Materials Consumed	26	1,931,587,175	1,477,916,164
Purchases of Traded Goods	27	3,185,653	544,801
Changes in Inventories of Finished Goods, Work-In-Progress and Traded Goods	28	(52,536,277)	3,551,134
Employee Benefit Expenses	29	263,397,361	242,366,520
Finance Costs	30	56,650,917	75,647,449
Depreciation and Amortisation Expenses	31	96,739,071	99,642,671
Other Expenses	32	1,923,109,284	1,334,724,368
<b>Total Expenses</b>		<b>4,222,133,185</b>	<b>3,234,393,107</b>
<b>(Loss)/Profit For The Period Before Tax and Prior Period Adjustments</b>		<b>608,986,649</b>	<b>447,632,924</b>
Prior Period Items (Net)		0	80,807,112
<b>(Loss)/Profit Before Tax After Prior Period Adjustments</b>		<b>608,986,649</b>	<b>366,825,812</b>
<b>Tax expense:</b>			
Current tax		97,437,864	74,608,638
Tax Expense Earlier Years		55,370	80,066,696
Deferred tax		(12,871,088)	(1,098,907)
		<b>84,622,146</b>	<b>153,576,427</b>
<b>(Loss)/Profit after tax (Before adjustment of Minority Interest)</b>		<b>524,364,504</b>	<b>213,249,385</b>
Less : Share of profit transferred to Minority			
<b>(Loss)/Profit after tax (After adjustment of Minority Interest)</b>		<b>524,364,504</b>	<b>213,249,385</b>
Significant Accounting Policies	1		

The Accompanying Notes form an integral part of the financial statements.

In terms of our report of even date annexed

## SUBHASH & CO.

Chartered Accountants

**CA. S.K. Jhunjhunwala**

Partner

**Amit Gupta**

Director

**Ashok Kumar**

Director

Place : Kathmandu

Dated : February 10, 2017

# Cash Flow Statement

For the year ended December 31, 2016

Particulars	(Fig. in NPR)	
	31-12-2016	31-12-2015
<b>A Cash flow from operating activities</b>		
(Loss)/Profit before tax	608,986,649	447,632,924
<b>Non-cash adjustments:</b>		
Depreciation and amortisation	98,028,269	106,346,717
Provision for doubtful debts (Net Provision Written Back)	-	1,467,743
Interest expense	55,922,210	75,045,855
Interest income	(35,916,187)	(28,370,273)
Gain on sale of fixed assets	(883,637)	(953,567)
Dividend income	-	-
Loss on sale of fixed assets	161,935,223	100,393,006
Prior period items	-	(80,807,112)
Operating profit before working capital changes	888,072,527	620,755,292
<b>Movement in working capital</b>		
Decrease/(Increase) in inventories	(175,010,683)	122,914,270
Decrease/(Increase) in trade receivables	(40,941,960)	(28,510,106)
Decrease/(Increase) in loans and advances	(32,924,784)	(417,471,773)
Increase/(Decrease) in trade payable, other liabilities and provisions	(134,349,101)	463,933,130
Cash generated from operations	504,845,999	761,620,812
Direct taxes paid	(86,296,788)	(112,331,350)
<b>Net cash flow from operating activities</b>	<b>418,549,211</b>	<b>649,289,463</b>
<b>B Cash flow from investing activities</b>		
Purchase of fixed assets and capital work in progress	(393,243,036)	(59,812,011)
Purchase of business for consolidated consideration		
Proceeds from sale of fixed assets	1,135,487	1,161,000
Investment in subsidiary	-	-
Loan to subsidiary	-	-
Purchase of non-current investments	-	-
Interest received	34,579,576	21,258,908
<b>Net cash flow used in investing activities</b>	<b>(357,527,973)</b>	<b>(37,392,103)</b>
<b>C Cash flow from financing activities</b>		
Proceeds/(repayments) of long term borrowings	-	(255,488,027)
Proceeds/(repayments) of short term borrowings	293,931,978	31,561,340
Dividend Paid	(289,750,000)	(289,750,000)
Taxes on Dividend Paid	(15,250,000)	(15,250,000)
Interest paid	(61,364,378)	(76,478,144)
Share application money received (pending allotment)	-	-
<b>Net cash flow from financing activities</b>	<b>(72,432,401)</b>	<b>(605,404,832)</b>



# Cash Flow Statement

For the year ended December 31, 2016

Particulars	(Fig. in NPR)	
	31-12-2016	31-12-2015
<b>D Net increase in cash and cash equivalents</b>	(11,411,162)	6,492,528
<b>E Cash and cash equivalents at the beginning of the year</b>	14,095,892	7,603,364
<b>F Cash and cash equivalents at the end of the Period as per balance sheet</b>	<b>2,684,730</b>	<b>14,095,892</b>
<b>Components of cash and cash equivalents</b>		
Balances with banks		
- in current accounts	1,130,522	12,655,200
- in deposit account	-	-
Cash on hand	1,554,208	1,440,692
	<b>2,684,730</b>	<b>14,095,892</b>

In terms of our report of even date annexed

**SUBHASH & CO.**

Chartered Accountants

**CA. S.K. Jhunjunwala**

Partner

Place : Kathmandu

Dated : February 10, 2017

**Amit Gupta**

Director

**Ashok Kumar**

Director

# Notes to the Financial Statements

For the year ended December 31, 2016

## CORPORATE INFORMATION

Varun Beverages (Nepal) Pvt. Ltd. is a Private Limited Company in Nepal and is incorporated under the provisions of Nepalese Companies Act, 2021(1964) (Further Amended in 2063(2006)). The company is engaged in the business of beverage bottling and distribution all over Nepal.

## BASIS OF PREPARATION

The Financial Statements of the Company have been prepared and presented as per revised schedule VI as notified under the companies act, 1956 (India) in accordance with generally accepted accounting principles. The Company has prepared these Financial Statements to comply in all material respects, with the Accounting Standards and the relevant provisions of the Companies Act. The Financial Statements have been prepared on an accrual basis and under the historical cost convention.

The accounting policies adopted in the preparation of financial statements are consistent with those of previous year except for the change in accounting policy, if any explained below.

## SIGNIFICANT ACCOUNTING POLICIES

### 1 Use of estimates

The preparation of the Financial Statements in conformity with generally accepted accounting principles requires Management to make Judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosures relating to contingent assets and liabilities at the end of the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in material or immaterial adjustments to the carrying amounts of assets or liabilities in future periods.

### 2 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

#### - Sales of Products:

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the customer and are recorded inclusive of excise duty and net of VAT, Sales Returns & Trade Discount.

#### - Interest Income:

Interest income is recognized on a time proportion basis taking into account the amount outstanding and the applicable interest rate.

### 3 Borrowing Costs

Borrowing cost includes interest, amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur.

### 4 Tangible Fixed Assets

#### Capitalisation & Disposal of Assets

- Property, Plant & Equipment are stated at cost inclusive of all expenses incurred in commissioning/putting them into use, less accumulated depreciation.
- Capital Work In Progress is stated at cost.
- Gains arising from derecognition of fixed assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit and loss when the asset is derecognised. Where as in case of Losses the same is included in depreciation i.e. added to depreciation.

# Notes to the Financial Statements

For the year ended December 31, 2016

## Depreciation on Tangible Fixed Assets

Depreciation on Tangible Fixed Assets has been charged as per the method so stated by IFRS (IAS-16 Property, Plant and Equipment) i.e. considering the useful life of the assets. Lives & Rates shall be as follows:

Particular	Useful Life-Years	Depreciation Rates
Computer & Office Equipment	4.00	23.75%
Glass Bottle & Shell	6.00	15.83%
Admin Vehicle	7.00	13.57%
Visi Cooler	8.00	11.88%
Commercial Vehicle	8.39	11.32%
Furniture & Fixture	10.00	9.50%
Plant & Machinery	20.00	4.75%
Building	28.44	3.34%

Breakages of containers are being adjusted on first bought first broken basis, since it's not feasible to specifically identify the broken containers in the fixed assets records.

## Reversal of Revaluation Reserve

Based on Management decision Land Revaluation Reserve has been reversed during the year thereby representing the true cost of Land in the books of accounts.

## 5 Inventories (As taken, Valued & Certified by the management as per Nepalese Income Tax Act, 2058(2002))

Raw Materials, Components, Stores & Spares and Work In Progress are valued at moving weighted average cost. Finished Goods (Manufactured & Traded) have been valued at lower of cost or Ex-factory Selling Price.

## 6 Retirement Benefits

The Company has schemes of retirement benefits for staffs in form of Provident Fund and gratuity. Contributions to Provident Fund are charged to revenue. In this financial year accumulated gratuity as well as leave encashment as on date has been provisioned as per the Company's norms in conformity with labour & gratuity laws but a fund for the same is yet to be established.

## 7 Going Concern

The financial statements are prepared on a going concern basis.

## 8 Income Taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 2058 enacted in Nepal. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

## 9 Provisions, Contingent Liabilities & Contingent Assets

### a. Provisions

A provision is recognised when an enterprise has a present obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made.

### b. Contingent Liabilities

A Contingent liability is a possible obligation that arises from the past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the company or a present

# Notes to the Financial Statements

For the year ended December 31, 2016

obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. Resulting contingent liabilities are:

#### - VAT

Company has cases related to VAT pending on different issues at different front specifically be Supreme Court-F/Y: 2060|61 to 2063|64, Revenue Tribunal-F/Y: 2062|63 to 2067|68, IRD-F/Y: 2067|68 to 2068|69.

#### - INCOME TAX

Company has cases related to INCOME TAX pending on different issues at different front specifically be Supreme Court-F/Y: 2060|61 to 2063|64, Revenue Tribunal-F/Y: 2062|63 to 2066|67, IRD-F/Y: 2067|68 to 2068|69.

#### - EXCISE

Company has cases related to EXCISE pending on different issues at different front specifically be Revenue Tribunal-F/Y: 2066|67-2068|69 & 2069|70 (Shrawan to Mangsir, 2069), IRD-F/Y: 2069|70 & 2070|71 (Poush 2069-Magh 2070), Supreme Court-F/Y: 2066|67.

During the year company has recognized partial contingent liability of Rs. 10,518,830.03 alongwith that the entity has also made provisions for Interest Liability amounting Rs. 94,176,830.83 which may arise in near future leading to a combine provision of Rs. 402,969,966.02 for various cases related to VAT, INCOME TAX, EXCISE pending at different fronts so stated above.

Contingent assets are not recognized in the financial statement.

## 10 Cash and cash equivalents

Cash and cash equivalents for cash flow statement comprises cash at bank and in hand and short-term investments with an original maturity of three months or less.

## 11 Regrouping of Figures:

Previous Year's figures have been regrouped/rearranged as and where necessary.

## 12 Miscellaneous:

- (i) All amounts are in Nepalese Rupees unless otherwise stated.
- (ii) All figures are in the nearest rupee and rounded off.

# Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

## 2. SHARE CAPITAL

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Equity Share Capital</b>		
<b>Authorised Share Capital</b>		
990,451 Equity shares of Rs. 1000/- each	990,451,000	990,451,000
<b>Issued</b>		
250,000 Ordinary Shares of par value of Rs. 1000/- each	250,000,000	250,000,000
<b>Subscribed And Fully Paid-Up</b>		
68,250 Ordinary Shares of Rs. 1000/- each	68,250,000	68,250,000
8,000 Bonus Shares of Rs. 1000/- each	8,000,000	8,000,000
	<b>76,250,000</b>	<b>76,250,000</b>

### a) Reconciliation of Equity Share Capital

Particulars	No's	No's
<b>Balance as at January 1, 2016</b>	76,250	76,250
Add: Bonus shares issued	-	-
<b>Balance as at 31 December 2016</b>	<b>76,250</b>	<b>76,250</b>

### b) Terms/Rights Attached to Equity Shares

The holders of the equity shares are entitled to receive dividends as declared from time to time, and are entitled to voting rights proportionate to their share holding at the meetings of shareholders.

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive remaining assets of the Company, after distribution of all preferential amounts. The distribution will be in proportion to the number of equity shares held by the shareholders.

### c) List of shareholders holding more than 5% of the equity share capital of the Company at the beginning and at the end of the reporting Period:

Shareholders as at December 31, 2016	No's	No's
Varun Beverage Limited, India	76,250	76,250
Shareholders as at December 31, 2015	No's	No's
Varun Beverage Limited, India	76,250	76,250

## Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

### 3. RESERVES AND SURPLUS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Revaluation Reserve</b>		
Balance at the end of the Period	-	88,071,842
<b>Securities Premium</b>		
Balance at the end of the Period	53,600,356	53,600,356
<b>Surplus In The Statement of Profit &amp; Loss</b>		
Balance at the beginning of the year	307,163,875	398,914,489
Less : Utilised for issue of bonus shares	-	-
Add: (Loss)/Profit for the Period	524,364,504	213,249,385
Less : Depreciation of earlier years adjusted	-	-
Less : Dividend Paid	(289,750,000)	(289,750,000)
Less : Taxes on Dividend Paid	(15,250,000)	(15,250,000)
	<b>526,528,378</b>	<b>307,163,874</b>
	<b>580,128,734</b>	<b>448,836,071</b>

### 4. LONG-TERM BORROWINGS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Term loans (secured)		
Local currency loan from banks	-	-
Local currency loan from financial institution	-	-
	-	-

### 5. DEFERRED TAX LIABILITIES (NET)

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Deferred Tax Liabilities		
Opening Balance		
Timing difference on Fixed Assets Depreciation and Amortisation		
Deferred Tax Assets		
Opening Balance	41,445,650	40,346,744
Unabsorbed depreciation and carry forward losses	12,490,287	(817,095)
Provision for Doubtful Debts	(270,511)	293,548
Provision for Retirement Benefits	651,312	1,622,453
<b>Deferred tax Liability/(Asset) as at closing of the Period</b>	<b>(54,316,738)</b>	<b>(41,445,650)</b>

During the Period further Deferred tax asset amount Rs. 1.28 Million has been created and accordingly Profit & Loss account has been credited.

# Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

## 6. OTHER LONG TERM LIABILITIES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Statutory dues payable under dispute	227,783,684	177,348,023
	<b>227,783,684</b>	<b>177,348,023</b>

## 7. LONG-TERM PROVISIONS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Provision for employee benefits		
Provision for Gratuity	49,421,159	45,635,506
Provision for Leave Encashment	3,350,485	3,505,425
	<b>52,771,645</b>	<b>49,140,931</b>

## 8. SHORT-TERM BORROWINGS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Loans repayable on demand</b>		
<b>Working capital facility</b>		
<b>Secured</b>		
- From banks	1,287,697,123	993,765,145
	<b>1,287,697,123</b>	<b>993,765,145</b>

a) Details of securities are as under:

Working Capital Facilities from Banks are secured by 1st charge on entire current assets of the Company ranking pari passu amongst the Banks and 2nd charge on the movable and immovable assets of the company. Short Term Loans from banks are secured by way of 2nd charge on the movable and immovable assets of the company pertaining to specific units.

b) There has been no defaults in repayment of any of the loans or interest thereon as at the end of the Period.

## Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

### 9. TRADE PAYABLES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Trade Payable		
Dues to others including acceptances	356,820,368	294,199,060
Provision for Expenses	104,716,962	88,840,658
	<b>461,537,330</b>	<b>383,039,718</b>

### 10. OTHER CURRENT LIABILITIES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Current maturities of long term debts		
Interest accrued but not due on borrowings	3,281,452	8,723,621
Advances from customers and others	12,877,313	10,864,938
Staff Balances in Credit	31,115,049	31,424,001
Capital creditors	2,927,496	-
Deposits received	507,016,376	438,936,778
Statutory dues payable	30,346,091	26,482,381
	<b>587,563,777</b>	<b>516,431,719</b>

### 11. SHORT TERM PROVISIONS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Provision for employee benefits		
Provision for Leave Encashment	4,925,391	5,299,548
Provision for current tax (Net of Advance Tax & TDS)		
Provision for proposed dividend		
Additions during the Period	(0)	289,750,000
Provision For Income Tax	3,067,443	-
	<b>7,992,834</b>	<b>295,049,548</b>



# Summary of Significant Accounting Policies and other Explanatory Information

## For the year ended December 31, 2016

### 12 TANGIBLE ASSETS

Gross block	VBNPL Nepal in NPR											Total
	Land	Land Leasehold	Buildings	Plant and Equipment	Furniture And Fixtures	Vehicles	Office Equipment	Computers	Containers	PM Vending Machines & Refrig (Visi Cooler)	Machines	
<b>Balance as at January 1, 2015</b>	94,871,275	-	197,352,654	652,608,904	8,891,193	195,316,265	3,100,685	6,786,195	635,752,449	319,856,937	-	2,114,536,557
Additions	-	-	-	9,904,573	41,200	4,086,307	1,332,916	130,089	95,925,965	93,942,640	-	205,363,688
Disposals	-	-	-	-	-	(4,148,662)	-	-	(360,149,178)	-	-	(364,297,840)
Acquisitions through business combinations	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance as at December 31, 2015</b>	<b>94,871,275</b>	<b>-</b>	<b>197,352,654</b>	<b>662,513,477</b>	<b>8,932,393</b>	<b>195,253,910</b>	<b>4,433,601</b>	<b>6,916,284</b>	<b>371,529,235</b>	<b>413,799,576</b>	<b>-</b>	<b>1,955,602,405</b>
Additions	68,762,570.00	-	-	39,665,838	160,166	5,192,716	536,999	200,226	216,138,437	61,139,691	-	391,796,642
Disposals & Reversals	(88,071,841.53)	-	-	(22,106,204)	-	(5,036,992)	-	-	(287,593,534)	(257,737,786)	-	(660,546,357)
Acquisitions through business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	-	-	-	-	-
-Foreign exchange fluctuation	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance as at December 31, 2016</b>	<b>75,562,004</b>	<b>-</b>	<b>197,352,654</b>	<b>680,073,111</b>	<b>9,092,559</b>	<b>195,409,634</b>	<b>4,970,600</b>	<b>7,116,510</b>	<b>300,074,138</b>	<b>217,201,481</b>	<b>-</b>	<b>1,686,852,690</b>
<b>Accumulated depreciation</b>												
<b>Balance as at January 1, 2015</b>	-	-	60,244,579	299,310,351	6,467,340	139,799,321	2,603,939	5,523,223	443,287,216	165,124,636	-	1,122,360,605
Depreciation charge	-	-	5,509,593	19,016,884	313,770	10,690,583	380,923	531,174	25,773,160	37,426,585	-	99,642,671
Reversal on disposal of assets	-	-	-	-	-	(3,941,229)	-	-	(253,052,127)	-	-	(256,993,356)
Acquisitions through business combinations	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance as at December 31, 2015</b>	<b>-</b>	<b>-</b>	<b>65,754,172</b>	<b>318,327,234</b>	<b>6,781,110</b>	<b>146,548,674</b>	<b>2,984,862</b>	<b>6,054,397</b>	<b>216,008,250</b>	<b>202,551,221</b>	<b>-</b>	<b>965,009,921</b>
Depreciation charge	-	-	5,524,688	19,983,789	323,254	11,154,266	496,395	292,670	35,110,524	23,853,486	-	96,739,071
Reversal on disposal of assets	-	-	-	(14,652,407)	-	(4,785,143)	-	-	(207,497,141)	(182,063,555)	-	(408,998,246)
<b>Balance as at December 31, 2016</b>	<b>-</b>	<b>-</b>	<b>71,278,860</b>	<b>323,658,616</b>	<b>7,104,365</b>	<b>152,917,798</b>	<b>3,481,257</b>	<b>6,347,066</b>	<b>43,621,633</b>	<b>44,341,151</b>	<b>-</b>	<b>652,750,746</b>
<b>Net block</b>												
<b>Balance as at December 31, 2015</b>	<b>94,871,275</b>	<b>-</b>	<b>131,598,482</b>	<b>344,186,242</b>	<b>2,151,283</b>	<b>48,705,235</b>	<b>1,448,739</b>	<b>861,887</b>	<b>155,520,985</b>	<b>211,248,356</b>	<b>-</b>	<b>990,592,485</b>
<b>Balance as at December 31, 2016</b>	<b>75,562,004</b>	<b>-</b>	<b>126,073,794</b>	<b>356,414,495</b>	<b>1,988,195</b>	<b>42,491,835</b>	<b>1,489,343</b>	<b>769,443</b>	<b>256,452,505</b>	<b>172,860,330</b>	<b>-</b>	<b>1,034,101,944</b>

# Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

## 13. INTANGIBLE ASSETS

Gross block				VBNPL Nepal in NPR
	Market Infrastructure	Franchise Rights /Trademarks	Software	Total
<b>Balance as at January 1, 2015</b>				-
Additions				-
Disposals				-
Acquisitions through business combinations				-
<b>Balance as at December 31, 2015</b>	-	-	-	-
Additions				-
Disposals				-
Acquisitions through business combinations				-
Other adjustments				-
- Foreign exchange fluctuation				-
<b>Balance as at December 31, 2016</b>	-	-	-	-
<b>Accumulated Amortisation</b>				
<b>Balance as at January 1, 2015</b>				-
Depreciation charge				-
Reversal on disposal of assets				-
Acquisitions through business combinations				-
<b>Balance as at December 31, 2015</b>	-	-	-	-
Depreciation charge				-
Reversal on disposal of assets				-
<b>Balance as at December 31, 2016</b>	-	-	-	-
<b>Net Block</b>				
<b>Balance as at December 31, 2015</b>	-	-	-	-
<b>Balance as at December 31, 2016</b>	-	-	-	-

## 14. CAPITAL WORK-IN-PROGRESS

Particulars					VBNPL Nepal in NPR	
	As at 1-1-2016	Transferred on Amalgamation	Additions	Deductions & Adjustments	Capitalized	As at 31-12-2016
Buildings	-		2,974,897		-	2,974,897
Plant and machinery	748,531		48,109,407		748,530	48,109,408
Visi Coolers	36,496,535		53,705,791		36,496,535	53,705,791
Plastic Shell	18,612,398		25,190,866		18,612,398	25,190,866
Glass Bottles	38,395,034		3,318		38,395,034	3,318
<b>Expenditure pending allocation</b>						
Survey, investigation, consultancy and supervision charges						
Expenditure during construction period						
<b>Construction stores (net of provision)</b>	<b>94,252,498</b>	-	<b>129,984,279</b>	-	<b>94,252,497</b>	<b>129,984,280</b>
<b>Current Period</b>	<b>94,252,498</b>	-	<b>129,984,279</b>	-	<b>94,252,497</b>	<b>129,984,280</b>
<b>Intangible Assets Under Development</b>						
Software						-
<b>Total</b>						-
Previous year	-	-	-	-	-	-

# Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

## 15. NON-CURRENT INVESTMENTS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Non-current investments	-	-

## 16. LONG-TERM LOANS AND ADVANCES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
(Unsecured considered good, unless otherwise stated)		
Capital advances	51,904,517	32,826,747
Security deposits	480,975	668,205
	<b>52,385,492</b>	<b>33,494,952</b>

## 17. OTHER NON-CURRENT ASSETS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Income Tax Advances (Net of admitted Income Tax Liability Pending Assessments)	-	8,129,003
Balance with Statutory Authorities (Paid Under Dispute)	-	8,129,003
	-	8,129,003

## 18. CURRENT INVESTMENTS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Current investments	-	-

## 19. INVENTORIES (VALUED AT COST OR LOWER OF NET REALIZABLE VALUE)

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Raw material	215,872,595	112,370,201
Work-in-progress	3,491,661	-
Finished goods	76,452,451	27,407,835
Raw Material In Transit	17,928,677	-
Stores and Spares	95,017,656	93,974,321
	<b>408,763,040</b>	<b>233,752,357</b>
Less: Provision for shortages		
Less: Provision for obsolete/ unserviceable items/ diminution in value of inventory		
	<b>408,763,040</b>	<b>233,752,357</b>

## Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Detail of finished goods inventory		
Beverages	74,907,411	27,294,289
Others	1,545,040	113,547
	<b>76,452,451</b>	<b>27,407,835</b>
Detail of work-in-progress		
Beverages	3,491,661	0.00
	<b>3,491,661</b>	-
Detail of raw material		
Concentrate	54,628,084	43,989,568
Sugar	120,264,858	25,717,760
Others	40,979,652	42,662,872
	<b>215,872,595</b>	<b>112,370,201</b>

### 20. TRADE RECEIVABLES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Outstanding for a period exceeding six months from the date they are due for payment		
Unsecured considered good	307,609	1,534,197
Doubtful	8,298,460	9,651,015
	8,298,460	9,651,015
Less : Allowances for bad and doubtful debts	(0)	-
Other debts		
Unsecured considered good	95,554,941	53,386,392
	<b>95,862,550</b>	<b>54,920,590</b>

### 21. CASH AND BANK BALANCES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Cash and cash equivalents		
Balances with banks		
- In Current Accounts	1,130,522	12,655,200
- In deposit account (with balance maturity upto 3 months)		
Cash on hand	1,554,208	1,440,692
	<b>2,684,730</b>	<b>14,095,892</b>
Other Bank Balances		
Deposits with maturity more than 3 months but less than 12 months *	530,544,403	530,510,883
	<b>533,229,132</b>	<b>544,606,776</b>

# Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

## 22. SHORT TERM LOANS AND ADVANCES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
(Unsecured considered good, unless otherwise stated)		
<b>Advances</b>		
Employees	3,714,725	4,465,268
Contractors and suppliers	77,722,279	24,681,037
Others	851,777,796	891,347,666
Balance with statutory authorities	20,920,415	-
Claim Receivable	1,582,395	2,941,841
Prepaid expenses	5,703,973	4,907,276
	<b>961,421,583</b>	<b>928,343,088</b>

## 23. OTHER CURRENT ASSETS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Interest accrued on:		
Term deposits	4,583,160	3,845,062
Others	7,077,207	6,478,694
	<b>11,660,367</b>	<b>10,323,756</b>

## 24. REVENUE

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Revenue from operations</b>		
Sale of products		
Finished goods	5,296,459,593	4,054,010,055
Other operating revenue		
Scrap	12,222,400	9,108,524
	<b>5,308,681,993</b>	<b>4,063,118,579</b>
<b>Detail of Sales of Finished Goods</b>		
Beverages	5,294,669,898	4,052,629,498
Others	1,789,695	1,380,557

## 25. OTHER INCOME

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Interest		
On bank deposits	21,608,582	20,748,280
Others	14,307,606	7,621,993
Gain on sale of fixed assets	883,637	953,567
Miscellaneous income	15,051,941	1,465,625
	<b>51,851,766</b>	<b>30,789,465</b>

## Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

### 26. COST OF MATERIALS CONSUMED

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Raw material and packing material consumed</b>		
Inventories at beginning of the year	112,370,201	220,009,489
Purchases during the Period (Net)	2,035,089,570	1,371,983,131
	<b>2,147,459,770</b>	<b>1,591,992,620</b>
Sold during the Period	0	1,706,255
Inventories at end of the Period	215,872,595	112,370,201
	<b>1,931,587,175</b>	<b>1,477,916,164</b>
<b>Detail of materials consumed</b>		
Concentrate	805,636,396	640,015,449
Sugar	698,587,512	450,377,460
Others	427,363,267	387,523,255
	<b>1,931,587,175</b>	<b>1,477,916,164</b>

### 27. PURCHASE OF TRADED GOODS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Beverages	-	-
Others	3,185,653	544,801
	<b>3,185,653</b>	<b>544,801</b>

### 28. CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK-IN-PROGRESS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>As at the beginning of the year</b>		
Finished goods	27,407,835	30,958,969
Work in progress	-	-
	<b>27,407,835</b>	<b>30,958,969</b>
<b>As at the closing of the Period</b>		
Finished goods	<b>76,452,451</b>	<b>27,407,835</b>
Work in progress	<b>3,491,661</b>	-
	<b>79,944,112</b>	<b>27,407,835</b>
	<b>(52,536,277)</b>	<b>3,551,134</b>

# Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

## 29. EMPLOYEE BENEFIT EXPENSE

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Salaries and wages	234,193,227	213,587,205
Contribution to provident and other funds	7,278,973	7,264,776
Staff welfare expenses	21,925,161	21,514,539
	<b>263,397,361</b>	<b>242,366,520</b>

## 30. FINANCE COSTS

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
<b>Interest on:</b>		
Term loans	-	12,714,544
Working Capital Facilities	55,922,210	62,331,311
Others	-	0
<b>Other borrowing costs:</b>		
Processing fees	728,707	601,594
	<b>56,650,917</b>	<b>75,647,449</b>

## 31. DEPRECIATION AND AMORTISATION EXPENSE

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Depreciation on tangible assets	96,739,071	99,642,671
Amortisation of intangible assets	-	-
	<b>96,739,071</b>	<b>99,642,671</b>

## 32. OTHER EXPENSES

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Power & Fuel	156,575,561	132,371,231
Repairs & maintenance		
Plant and machinery	69,787,237	65,804,151
Buildings	34,455,072	3,918,141
Others	10,195,908	7,633,322

## Summary of Significant Accounting Policies and other Explanatory Information

For the year ended December 31, 2016

Particulars	VBNPL (NPR) 31-12-2016	VBNPL (NPR) 31-12-2015
Stores and spares consumed	50,216,877	39,637,049
Rent	15,788,256	13,731,807
Rates and taxes	104,866,083	147,273
Insurance	8,541,387	8,237,213
Printing and stationery	2,011,993	1,568,733
Communication	3,912,743	3,546,493
Travelling	33,935,495	28,033,817
Payment to auditors		
Audit fees	300,000	300,000
Tax Audit, tax representation and certification fees		
Other Services	250,000	550,000
Vehicle running and maintenance	7,785,816	8,102,391
Lease and hire charges	4,022,045	12,885,937
Security and service charges	13,269,733	10,851,700
Professional charges and consultancy fees	267,009,765	78,615,424
Management Fee	129,421,777	98,084,932
Bank charges	3,256,716	562,266
Advertisement and sales promotion	485,507,415	363,689,221
Meeting and conference	10,987	1,263,430
Freight, octroi and insurance paid (Net)	179,857,582	152,010,074
Delivery vehicle running and maintenance	126,590,559	142,758,826
Distribution Expenses	31,234,147	26,552,882
Loading and unloading expenses	18,136,210	13,071,806
Donations	380,200	250,000
Fixed Assets Written Off	1,289,198	6,704,045
Loss On Sale of Fixed assets	161,935,223	100,393,006
Provision for doubtful debts	-	1,467,743
General office and other expenses	2,565,302	3,136,620
License Fee	-	8,844,836
	<b>1,923,109,284</b>	<b>1,334,724,368</b>





Sri Lanka

# Independent Auditor's Report

## To the Shareholders of Varun Beverages Lanka (Private) Limited

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Varun Beverages Lanka (Private) Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("Group") which comprise the statement of financial position as at December 31, 2016 and the statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year ended December 31, 2016, and a summary of significant accounting policies and other explanatory notes.

### BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors ("the Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SME's), and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### SCOPE OF AUDIT AND BASIS OF OPINION

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards for Small and Medium-sized Entities (SLFRS for SME's). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, if any, made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### BASIS FOR QUALIFIED OPINION

As stated in Note 2.1.1 'Basis of preparation', the company deviates from the local accounting standards, Sri Lanka Accounting Standards for Small and Medium-sized Entities. (SLFRS for SMEs) in the following three instances to be in line with the group accounting policies.

1. Borrowing cost amounting to Rs. 629 million incurred to acquire property, plant and equipment has been capitalized in these financial statements; this practice is not in compliance with the requirements of Sections 17 and 25 of the SLFRS for SMEs. Borrowing cost capitalized under property plant and equipment includes net exchange loss of Rs. 299.9 million that has arisen due to conversion of monetary assets and liabilities into the presentation currency from the year 2013. Further, from the total interest cost of long term borrowings of Rs. 102.7 million, Rs. 3.9 million has been capitalized to work in progress during the current year. Accordingly, the total comprehensive income for the year ended December 31, 2016 and retained earnings as of December 31, 2016 have been overstated by Rs. 44.6 million and 582.2 respectively, which is the net impact of borrowing cost capitalized and the depreciation charged on the capitalized borrowing cost. Further, the net book value of property plant and equipment and capital work in progress as of December 31, 2016 are overstated by Rs. 578.2 million and Rs. 3.9 million respectively.
2. As discussed in note 15 to the financial statements, the company's zero rated redeemable preference shares carried at the cost of Rs. 3,106.6 million, which is arrived at after deducting the redemption payment amounting to Rs. 227.1 million, is accounted under equity. According to Section 22 of SLFRS for SMEs, this instrument should initially be measured at fair value of the future cash payments which amounts to Rs. 1,670.9 million. The difference of Rs. 1,662.7 million should be classified under equity. Accordingly, equity is overstated by Rs. 1,443.8 million as of the reporting date. The profit for the year ended December 31, 2016 and retained earnings as of December 31, 2016 are overstated by Rs. 152.5 million and Rs. 388.3 million respectively due to the non-recognition of interest expense on the liability component of the redeemable preference shares.

**QUALIFIED OPINION**

In our opinion, except for the effects of the matters referred to in the preceding paragraphs (1) and (2) in the basis for qualified opinion, the consolidated financial statements present fairly, in all material respects of the financial position of Varun Beverages Lanka (Pvt) Ltd., as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium Sized Entities (SLFRS for SME's).

**REPORT ON OTHER LEGAL REQUIREMENTS**

As required by section 163(2) of the Companies Act No. 07 of 2007, we state the following;

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion;
  - Except for the above matters discussed in paragraphs (1) and (2), we have obtained all the information and explanations that were required for the audit and so far as appears from our examination, proper accounting records have been kept by the Company,
  - the financial statements of the company and the Group give a true and fair view of its financial position as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium Sized Entities (SLFRS for SME's).
  - the financial statements of the company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act.

**SJMS ASSOCIATES**

Chartered Accountants  
Colombo  
January 31, 2017

# Statement of Comprehensive Income

For the year ended December 31, 2016

		(Fig. in LKR)			
	Note	Company Year ended 31.12.2016	Group Year ended 31.12.2016	Company Year ended 31.12.2015	Group Year ended 31.12.2015
Revenue	4	731,897,753	5,006,803,374	583,468,488	3,177,564,570
Cost of sales	5	(556,118,588)	(2,767,507,242)	(464,353,917)	(2,039,307,240)
Gross profit		175,779,165	2,239,296,132	119,114,571	1,138,257,330
Other income	6	449,858,674	129,812,601	460,906,068	251,768,198
		625,637,839	2,369,108,733	580,020,639	1,390,025,528
<b>Less: Expenditure</b>					
Administrative expenses		(258,986,821)	(347,130,642)	(206,039,428)	(264,322,351)
Selling and distribution expenses		(429,132,528)	(1,794,948,279)	(307,624,083)	(1,128,680,814)
Profit/(loss) from operations		(62,481,510)	227,029,812	66,357,128	(2,977,638)
Finance and other costs	8	(229,413,216)	(402,992,053)	(276,748,212)	(409,055,065)
Profit/(loss) before tax	7	(291,894,726)	(175,962,241)	(210,391,084)	(412,032,703)
Income tax expense/(reversal)	9	-	6,272,037	(13,572,560)	(24,202,806)
<b>Profit/(loss) for the year</b>		<b>(291,894,726)</b>	<b>(169,690,204)</b>	<b>(223,963,644)</b>	<b>(436,235,510)</b>
<b>Other Comprehensive income/(expense)</b>					
Actuarial gain on employee benefit obligations		(11,370,874)	(945,440)	409,391	784,408
<b>Total Comprehensive income/(expense) for the year</b>		<b>(303,265,600)</b>	<b>(170,635,644)</b>	<b>(223,554,253)</b>	<b>(435,451,102)</b>
<b>Attributable to :</b>					
Owners of the parent		(303,265,600)	(170,635,644)	(228,760,670)	(441,564,146)
Non-controlling interest		-	-	-	-
		<b>(303,265,600)</b>	<b>(170,635,644)</b>	<b>(228,760,670)</b>	<b>(441,564,146)</b>

The accounting policies and notes from 01 to 26 form an integral part of these financial statements.

# Statement of Financial Position

As at December 31, 2016

	Note	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
(Fig. in LKR)					
<b>Assets</b>					
<b>Non Current Assets</b>					
Property, plant and equipment	10	3,243,961,440	5,233,517,461	3,271,791,530	5,150,797,556
Capital work-in-progress	11	190,215,946	208,700,924	-	-
Deferred tax asset	9.1	-	86,483,271	-	60,405,855
		<u>3,434,177,387</u>	<u>5,528,701,656</u>	<u>3,271,791,530</u>	<u>5,211,203,411</u>
Investment in subsidiary-Ole Springs Bottlers (Pvt) Ltd		1,116,373,170	-	1,116,373,170	-
<b>Current Assets</b>					
Inventories	12	224,786,679	647,006,914	170,979,543	484,211,273
Trade and other receivables	13	590,736,942	1,338,517,461	510,673,056	1,323,529,878
Amounts due from related parties	23	263,359,915	29,584,627	51,710,382	51,710,381
Cash and cash equivalents	14	9,545,513	79,191,173	34,751,220	64,427,405
		<u>1,088,429,049</u>	<u>2,094,300,175</u>	<u>768,114,202</u>	<u>1,923,878,938</u>
<b>Total Assets</b>		<u>5,638,979,606</u>	<u>7,623,001,830</u>	<u>5,156,278,901</u>	<u>7,135,082,349</u>
<b>Equity and Liabilities</b>					
<b>Equity</b>					
Stated capital	15	3,674,392,600	3,674,392,600	1,994,807,600	1,994,807,600
Accumulated losses		(622,564,414)	(502,138,062)	(319,298,814)	(314,664,228)
<b>Total Equity</b>		<u>3,051,828,186</u>	<u>3,172,254,538</u>	<u>1,675,508,785</u>	<u>1,680,143,372</u>
<b>Non Current Liabilities</b>					
Deposit payable	16	15,019,878	371,767,815	5,425,854	338,788,721
Borrowings	17	631,377,120	783,679,869	1,258,349,598	1,407,103,146
Retirement benefit obligations	18	19,475,322	72,089,760	6,002,302	68,457,012
Lease creditors	19	11,443,827	11,443,827	19,562,261	19,562,261
		<u>677,316,146</u>	<u>1,238,981,271</u>	<u>1,289,340,014</u>	<u>1,833,911,138</u>
<b>Current Liabilities</b>					
Borrowings	20	1,331,527,729	1,757,238,098	1,244,900,028	2,173,997,189
Lease creditors	19	9,953,973	9,953,973	3,355,182	3,355,182
Trade and other payables	21	121,312,187	707,927,209	139,385,857	589,027,215
Amounts due to related parties	23	78,966,619	140,570,924	512,350,048	290,629,921
Bank overdraft	22	368,074,767	596,075,816	291,438,987	564,018,331
<b>Total Current Liabilities</b>		<u>1,909,835,274</u>	<u>3,211,766,020</u>	<u>2,191,430,102</u>	<u>3,621,027,839</u>
<b>Total Equity and Liabilities</b>		<u>5,638,979,606</u>	<u>7,623,001,830</u>	<u>5,156,278,901</u>	<u>7,135,082,349</u>

I certify that the financial statements have been prepared in compliance with the requirements of the Companies Act No 07 of 2007

## Vishal Jain

Finance Controller

The Board of Directors is responsible for the preparation and presentation of these financial statements

Signed for and on behalf of the Board;

## Ajay Kumar Bhartia

Director

January 31, 2017

## Vishal Jain

Director

January 31, 2017

The accounting policies and notes from 01 to 26 form an integral part of these financial statements.

# Statement of Changes in Equity

For the year ended December 31, 2016

Company	(Fig. in LKR)		
	Stated Capital	Accumulated Losses	Total
<b>Balance as at 01.01.2015</b>	1,476,150,000	(90,538,143)	1,385,611,857
Preference shares issued	745,757,600	-	745,757,600
Profit/(loss) for six months	-	(229,170,061)	(229,170,061)
Other comprehensive income/(loss)	-	409,391	409,391
Preference shares redeemed	(227,100,000)	-	(227,100,000)
<b>Balance as at 31.12.2015</b>	<b>1,994,807,600</b>	<b>(319,298,814)</b>	<b>1,675,508,786</b>
<b>Balance as at 01.01.2016</b>	<b>1,994,807,600</b>	<b>(319,298,814)</b>	<b>1,675,508,786</b>
Preference shares issued	1,679,585,000	-	1,679,585,000
Profit/(loss) for the year	-	(291,894,726)	(291,894,726)
Other comprehensive income/(loss) for the year	-	(11,370,874)	(11,370,874)
<b>Balance as at 31.12.2016</b>	<b>3,674,392,600</b>	<b>(622,564,414)</b>	<b>3,051,828,186</b>

Group	(Fig. in LKR)		
	Stated Capital	Accumulated Losses	Total
<b>Balance as at 01.01.2015</b>	1,476,150,000	126,899,918	1,603,049,918
Preference shares issued	745,757,600	-	745,757,600
Preference shares redeemed	(227,100,000)	-	(227,100,000)
Profit/(loss) for the year	-	(442,348,554)	(442,348,554)
Other comprehensive income/(loss) for the year	-	784,408	784,408
<b>Balance as at 31.12.2015</b>	<b>1,994,807,600</b>	<b>(314,664,228)</b>	<b>1,680,143,372</b>
<b>Balance as at 01.01.2016</b>	<b>1,994,807,600</b>	<b>(314,664,228)</b>	<b>1,680,143,372</b>
Preference shares issued	1,679,585,000	-	1,679,585,000
Profit/(loss) for the year	-	(169,690,204)	(169,690,204)
Depreciation on revalued asset	-	(16,838,190)	(16,838,190)
Other comprehensive income/(loss)	-	(945,440)	(945,440)
<b>Balance as at 31.12.2016</b>	<b>3,674,392,600</b>	<b>(502,138,062)</b>	<b>3,172,254,538</b>

The accounting policies and notes from 01 to 26 form an integral part of these financial statements..

# Statement of Cash Flows

For the year ended December 31, 2016

	(Fig. in LKR)			
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
<b>Cash Flows from Operating Activities</b>				
Operating profit/ (loss) before interest and taxation	(62,481,510)	227,029,812	66,357,128	(2,977,638)
<b>Adjustment for:</b>				
Depreciation	295,578,385	400,198,652	274,872,693	393,564,718
Gain/(loss) on disposal of property, plant and equipment	(4,226)	(4,226)	-	(67,745)
Provision for bad and doubtful debt	-	-	95,137	10,970,601
Trade equipment damaged	-	11,657,390	1,597,471	8,873,416
Provision for gratuity	3,014,371	5,668,240	2,668,484	11,589,208
Operating profit before working capital changes	236,107,020	644,549,867	345,590,913	421,952,561
<b>Working Capital Changes</b>				
(Increase)/decrease in inventories	(53,807,137)	(162,795,641)	(34,740,175)	(79,882,805)
Increase/ (decrease) in amounts due from related party	(211,649,533)	(150,058,997)	78,150,755	107,203,313
(Increase)/decrease in amounts due to related parties	(433,383,429)	22,125,754	378,402,327	(42,536,988)
(Increase)/decrease in accounts receivable	(80,063,888)	(34,792,963)	(139,265,668)	114,411,540
Increase/(decrease) in accounts payable	(8,479,646)	151,879,088	(313,646,719)	(157,831,699)
Cash generated from/(used in) operations	(551,276,612)	470,907,108	314,491,433	363,315,922
Income tax paid	-	-	(13,572,560)	(13,275,665)
Interest paid	(229,113,101)	(399,569,203)	(281,771,288)	(414,984,770)
Gratuity paid	(1,212,340)	(6,403,783)	-	(904,388)
Cash flows from operating/(used in) activities	(781,602,053)	64,934,123	19,147,585	(65,848,901)
<b>Cash Flows from Investing Activities</b>				
Acquisition of property, plant and equipment	(260,218,576)	(503,884,415)	(385,724,971)	(493,640,391)
Expenditure on capital work in progress	(190,215,946)	(208,700,924)	-	-
Proceeds on sale of property, plant and equipment	41,239	41,239	112,769,274	67,745
Net cash used in investing activities	(450,393,283)	(712,544,099)	(272,955,697)	(493,572,646)
<b>Cash Flows from Financing Activities</b>				
Net borrowings	(540,344,778)	(1,040,182,368)	(78,919,601)	216,025,840
Share issue	1,679,585,000	1,679,585,000	745,757,600	745,757,600
Share reduction	-	-	(227,100,000)	(227,100,000)
Lease payments	(9,086,373)	(9,086,373)	(2,876,181)	(2,876,181)
Net cash flow from investing activities	1,130,153,850	630,316,259	436,861,818	731,807,259
Net increase/decrease in cash and cash equivalents	(101,841,486)	(17,293,717)	183,053,706	172,385,712
Cash and cash equivalents at the beginning of the year	(256,687,767)	(499,590,926)	(439,741,473)	(671,976,638)
Cash & cash equivalents at the end of the year (Note 13, 21)	(358,529,253)	(516,884,643)	(256,687,767)	(499,590,926)
Analysis of cash and cash equivalents at the end of the year				
Cash in hand and cash at bank	9,545,513	79,191,173	34,751,220	64,427,405
Bank overdraft	(368,074,767)	(596,075,816)	(291,438,987)	(564,018,331)
	(358,529,254)	(516,884,644)	(256,687,767)	(499,590,926)

The accounting policies and notes from 01 to 26 form an integral part of these financial statements.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 1. GENERAL

### 1.1 Reporting entity

Varun Beverages Lanka (Private) Limited (the "Company") is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the company and the principal place of business is located at No.140, Low Level Road, Embulgama, Ranala.

### 1.2 Principal activities and nature of operations

#### The Company – Varun Beverages Lanka (Private) Limited

The principle activity of the company is to manufacture and sell Agro Processing Beverages and Mineral Water.

#### Subsidiary – Ole Springs Bottlers (Private) Limited

The company is engaged in the business of manufacturing, selling and distribution of non-alcoholic beverages.

### 1.3 Parent and ultimate parent enterprises

The company's parent undertaking is Varun Beverages Limited and in the opinion of the directors, the company's ultimate parent undertaking is RJ Corp Limited. Both intermediate parent and ultimate parent are incorporated in India.

### 1.4 Date of authorization for issue

The financial statements were approved for issue by the Board of Directors on January 31, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

#### 2.1.1 Basis of consolidation

These consolidated financial statements have been prepared in compliance with the Sri Lanka Accounting Standard for Small and Medium-Sized Entities (SLFRS for SMEs) laid down by The Institute of Chartered Accountants of Sri Lanka except for Notes 2.2.1, 2.4.1 and 2.7.2. These three policies which deviate from SLFRS for SMEs, are adopted to be in line with group accounting policies.

All values presented in these financial statements are in Sri Lankan Rupees (Rs.) rounded to the nearest rupee. The measurement basis used is the historical cost basis.

The previous period figures and phrases have been reclassified whenever necessary to conform to current period presentation. The current year figures cannot be directly compared with comparative figures in relation to Statement of changes in equity due to the difference in reporting periods.

#### 2.1.2 Going concern

When preparing the financial statements the directors have assessed the ability of the company to continue as a going concern. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future even though the company has negative net assets during early stages of the business operations. The company does not for see a need for liquidation or cessation of trading, taking into account all available information about the future and accordingly, they continue to adopt the going concern basis in preparing these financial statements.

#### 2.1.3 Consolidation

##### 2.1.3.1 Consolidation financial statements

The consolidated financial statements of the company for the year ended December 31, 2016 include Varun Beverages Lanka (Private) Limited and Ole Springs Bottlers (Private) Limited which is a wholly owned subsidiary of Varun Beverages Lanka (Private) Limited.



# Notes to the Financial Statements

For the year ended December 31, 2016

## 2.1.3.2 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date the control ceases

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized is recorded as goodwill.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Appropriate adjustments have been made where necessary to ensure consistency with the policies adopted by the group.

## 2.2 Functional and presentation currency

The financial statements are presented in Sri Lankan Rupees which is the company's functional and presentation currency. All financial information presented has been rounded to the nearest rupee, unless otherwise stated.

### 2.2.1 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of such transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss except for the exchange gain/loss on the translation of the USD loan, which is capitalized with the respective asset.

## 2.3 Revenue

### 2.3.1 Sale of Goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

### 2.3.2 Other income

#### 2.3.2.1 Grants

Grants and subsidies are recognized in the financial statements at their fair value. When the grant or subsidy relates to an expense it is recognized as income over the period necessary to match it with the costs, which it is intended to compensate for on a systematic basis.

#### 2.3.2.2 Rent income

Rent income arise from both related party and third parties are recognized on an accrual basis.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 2.4 Expenditure recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency have been charged to revenue in arriving at the profit/ (loss) for the period.

### 2.4.1 Borrowing costs

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 2.5 Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the company. All other lease are classified as operating lease.

Rights to assets held under finance lease are recognized as assets of the company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the commencement of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment and depreciated and assessed for impairment losses in the same way as owned assets. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

## 2.6 Income tax expense

### 2.6.1 Company

For a period of six (06) years reckoned from the year of assessment as may be determined by the Board of Investment of Sri Lanka (BOI) ("tax exemption period") the provisions of the Inland Revenue Act No. 10 of 2006 relating to the imposition, payment and recovery of income tax in respect of the profits and income of the Company shall not apply to the profit and income of the Company.

For the above purpose the year of assessment shall be reckoned from the year in which the enterprise commences to make profits or any year of assessment not later than two (02) years reckoned from the date of commencement of commercial operations, whichever year is earlier, as specified in a certificate issued by the Board of Investment of Sri Lanka (BOI).

After the aforesaid tax exemption period referred to above, the profits and income of the Enterprise shall be charged at the rate of fifteen per centum (15%)

### Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognized in profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 2.6.2 Subsidiary

The provision for income tax is based on the elements of income and expenditures as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act. No 10 of 2006 subsequent amendments.

The company's liability to taxation has been computed in accordance with the provision of the Inland Revenue Act No. 10 of 2006, and amendments thereto.

Tax expense represents the aggregate amount included in profit or loss for the period in respect of the current tax and deferred tax.

Current tax is the amount of income tax payable or refundable in respect of the taxable profit or loss for the current or prior periods.

## 2.7 Stated capital

### 2.7.1 Ordinary shares

Ordinary shares are classified as equity.

### 2.7.2 Redeemable preference shares

The company has classified redeemable preference shares under equity.

### 2.8.1 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The group adds to the carrying amount of an item of property, plant and equipment the cost of replacing parts of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred. Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method is as follows:

Assets	Rate (%)
Computers	25.00
Furniture and Fittings	10.00
Motor Vehicles	14.29
Trade Equipment	12.50
Office Equipment	25.00
Buildings	3.34
Plant and Machinery	4.75
Tools and Equipment	4.75
Bottles and Crates	12.50

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

# Notes to the Financial Statements

For the year ended December 31, 2016

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other gains/ (losses) – net' in the statement of comprehensive income.

## 2.8.2 Capital work-in-progress

Capital work-in-progress are carried at cost. In respect of Projects under construction, incidental and attributable expenses (net of incidental income) including interest expenses is carried as part of incidental expenditure during construction to be allocated on major immovable project assets other than land and infrastructural facilities, on commissioning of the project.

## 2.9 Investment property

The group owns a freehold land that is held to earn long-term rental income and for capital appreciation. The property is occupied by the group. Investment property is carried cost less accumulated depreciation and any accumulated impairment losses as the fair value of the building cannot be reliably determined without undue cost or effort due to a lack of reliable evidence about comparable market transaction. The cost represents the historical cost of acquisition.

## 2.10 Intangible assets

### 2.10.1 Computer software

Purchased computer software is stated at cost less accumulated depreciation and any accumulated impairment losses. It is amortized over its estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortization rate, useful life or residual value of an intangible asset, the amortization is revised prospectively to reflect the new expectations.

## 2.11 Impairment of non-financial assets

At each reporting date, property, plant and equipment, investment property, intangible assets, and investments in associates are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss for a non-financial asset other than goodwill subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 3.1 FINANCIAL INSTRUMENTS

Trade and other receivables are initially recognized at the transaction price. All sales are made on the basis of normal credit terms, and the receivables do not bear interest. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

Investment in subsidiary is recognized at cost less impairment losses.

Financial liabilities are initially recognized at the transaction price (including transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest method.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 3.2 DEFINED BENEFIT PLAN – GRATUITY

Gratuity is a defined benefit plan. In order to meet this liability, a provision is carried forward in the Statement of financial position. The provision is made on the basis of an actuarial valuation as recommended by the Sri Lanka Accounting Standards for SMEs considering the Projected Unit Credit (PUC) method and premium for the year is charge as an expense to the Income Statement in the period which is relate. The fund is not externally funded.

However, as per the Payment of Gratuity Act No. 12 of 1983, the liability arises only upon the completion of five years of continuous service.

## 3.3 DEFINED CONTRIBUTION PLAN-EPF & ETF

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the income statement in the periods during which services are rendered by employees.

### Employees' Provident Fund

The company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Provident Fund.

### Employees' Trust Fund

The company contributes 3% of the salary of each employee to the Employees' Trust Fund.

## 3.4 JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

## 3.5 EVENTS AFTER THE REPORTING PERIOD

All material events after the reporting period are considered and where necessary adjustments have been made in the financial statements.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 4. REVENUE

	(Fig. in LKR)			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Local sales	713,187,576	5,719,692,078	535,266,892	3,637,961,649
Export sales	33,302,762	40,244,716	58,852,872	66,745,435
	<b>746,490,338</b>	<b>5,759,936,794</b>	<b>594,119,765</b>	<b>3,704,707,084</b>
Nation Building Tax	(14,592,585)	(110,060,290)	(10,651,277)	(71,958,419)
Excise duty	-	(643,073,130)	-	(455,184,095)
	<b>731,897,753</b>	<b>5,006,803,374</b>	<b>583,468,488</b>	<b>3,177,564,570</b>

## 5. COST OF FINISHED GOODS MANUFACTURED

	(Fig. in LKR)			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Finished goods as at 01.01.2016	49,858,146	116,552,170	45,606,250	96,786,671
Finished goods purchase	-	41,617,576	-	47,191,032
Factory cost transferred (Note 5.1)	555,754,021	2,741,473,835	468,605,813	2,011,881,707
Finished goods as at 31.12.2016	(49,493,579)	(132,136,339)	(49,858,146)	(116,552,170)
	<b>556,118,588</b>	<b>2,767,507,242</b>	<b>464,353,917</b>	<b>2,039,307,240</b>

### 5.1 Factory Cost Transferred

	(Fig. in LKR)			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Raw materials as at 01.01.2016	110,558,102	285,303,149	73,312,979	221,861,356
Raw material purchase	367,259,340	2,180,249,750	342,817,343	1,512,994,361
Raw material as at 31.12.2016	(135,739,085)	(434,033,407)	(110,558,102)	(285,303,149)
Raw material consumed	342,078,357	2,031,519,492	305,572,220	1,449,552,568
Production overheads (Note 5.2)	213,675,664	709,954,343	163,033,593	562,329,139
	<b>555,754,021</b>	<b>2,741,473,835</b>	<b>468,605,813</b>	<b>2,011,881,707</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 5.2 Production Overheads

	(Fig. in LKR)			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Salaries	46,227,046	100,543,977	35,801,884	89,594,464
Wages	10,364,612	34,106,075	8,585,185	20,590,271
Overtime	19,687,403	61,440,612	9,788,563	29,796,888
Bonus	5,300,401	14,766,212	4,540,017	12,321,778
Allowance	3,284,422	4,111,572	2,075,232	2,376,032
Employees' provident fund	5,552,702	12,070,735	4,297,078	10,752,188
Employees' trust fund	1,388,654	3,018,161	1,074,270	2,688,047
Staff welfare	2,200,598	7,259,616	1,141,457	7,699,452
Medical	756,068	1,118,377	558,019	1,326,792
Terminal gratuity	815,255	2,301,661	712,989	3,173,573
Fuel	11,808,831	61,791,742	10,927,351	47,445,148
Stores spares and chemicals	16,124,862	56,927,663	11,709,180	39,696,178
Breakages	4,520,907	29,909,209	2,220,075	20,725,142
Lab consumables	-	2,228,759	-	1,891,961
Lab testing charges	3,076,214	3,076,214	1,559,622	1,559,622
Staff uniforms	-	1,858,122	-	1,543,150
Foreign travelling	105,246	105,246	1,137,862	1,137,862
Electricity	48,053,678	113,790,035	41,978,730	91,760,501
Postage and courier charges	240,401	240,401	425,965	425,965
Telephone	6,398	513,948	107,635	485,970
General insurance	2,685,273	4,138,485	1,504,984	2,871,989
Printing and stationary	511,503	511,503	458,833	458,833
Security charges	3,121,532	14,856,862	2,459,373	12,481,465
Motor vehicle fuel	-	522,524	-	439,772
Depreciation - Factory building	-	5,384,328	-	5,510,674
-Plant and machinery	-	4,689,653	-	20,362,883
-Office equipment	-	9,415	-	7,641
-Furniture and fittings	-	323,436	-	321,841
-Motor vehicles and forklift	-	253,041	-	235,176
-Computers	-	262,089	-	219,969
-Bottles and crates	-	79,696,937	-	86,995,701
Building repair and maintenance	3,923,232	10,451,333	3,457,126	8,791,225
Equipment maintenance	23,796,428	77,444,422	16,266,453	36,036,332
Travelling and transport	124,000	124,000	245,710	245,710
Loading charges	-	107,980	-	358,945
Safety equipment	-	-	-	-
	<b>213,675,664</b>	<b>709,954,343</b>	<b>163,033,593</b>	<b>562,329,139</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 6. OTHER INCOME

	(Fig. in LKR)			
	Company Year ended 31.12.2016	Group Year ended 31.12.2016	Company Year ended 31.12.2015	Group Year ended 31.12.2015
Vehicle rent income	891,599	891,599	2,750,593	2,750,593
Grant from abroad	102,485,645	102,485,645	232,370,096	232,370,096
Blow molding income	81,444,619	-	46,828,194	-
Administration services income	43,200,000	-	43,200,000	-
Technical service income	100,609,384	-	-	-
Disposal of property, plant and equipment	4,226	4,226	67,745	67,745
Scrap sales	1,667,563	13,864,627	840,772	8,693,719
Rent income	110,824,248	-	129,642,252	720,000
Bad debt recover	-	-	-	57,144
Miscellaneous income	8,731,390	11,327,787	-	-
Interest income from banks	-	1,238,717	-	995,857
	<b>449,858,674</b>	<b>129,812,601</b>	<b>460,906,068</b>	<b>251,768,198</b>

## 7. PROFIT /(LOSS) BEFORE TAX IS STATED AFTER CHARGING ALL EXPENSES INCLUDING THE FOLLOWING:

	(Fig. in LKR)			
	Company Year ended 31.12.2016	Group Year ended 31.12.2016	Company Year ended 31.12.2015	Group Year ended 31.12.2015
Personnel cost	27,356,409	41,887,165	21,471,890	31,487,481
Defined contribution plan costs-EPF &ETF	2,907,490	3,722,608	1,879,240	868,553
Provision for gratuity	3,014,371	5,668,240	2,294,163	5,733,548
Bonus	1,997,597	2,477,955	1,415,502	2,615,316
Depreciation	295,578,385	400,198,652	274,872,694	393,564,718
Insurance	4,378,294	5,831,506	3,073,240	4,440,245
Auditor's fees	1,410,922	2,461,182	590,539	1,358,289

## 8. FINANCE COST

	(Fig. in LKR)			
	Company Year ended 31.12.2016	Group Year ended 31.12.2016	Company Year ended 31.12.2015	Group Year ended 31.12.2015
Bank overdraft interest	37,288,264	67,264,314	34,215,164	58,489,361
Lease interest	3,171,599	3,171,599	1,547,407	1,547,407
Long term loan interest	98,782,045	133,795,993	126,199,010	134,307,336
Short term loan interest	29,592,692	121,398,783	36,832,062	120,863,999
Bank charges	956,522	5,116,580	465,473	7,066,278
Bank guarantee fee	57,241,100	57,241,100	62,089,597	62,089,597
Exchange loss	2,080,879	11,580,834	15,025,177	18,835,427
Interest on gratuity	300,115	3,422,850	374,321	5,855,660
	<b>229,413,216</b>	<b>402,992,053</b>	<b>276,748,212</b>	<b>409,055,065</b>



# Notes to the Financial Statements

For the year ended December 31, 2016

## 9. TAXATION

### Income Tax Expenses

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	(Fig. in LKR)			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Deferred tax (Note 9.1)	-	(26,077,416)	-	9,284,485
Income tax expenses-current year/period	-	21,266,789	-	1,642,656
Tax payment for previous year	-	(1,461,410)	13,572,560	13,275,665
	-	<b>(6,272,037)</b>	<b>13,572,560</b>	<b>24,202,806</b>

### 9.1 Group

#### Deferred Tax Balances

	(Fig. in LKR)			
	<b>Property, plant</b>	<b>Retirement</b>	<b>Unused tax</b>	<b>Total</b>
	<b>&amp; equipment</b>	<b>benefit</b>	<b>losses</b>	
		<b>obligation</b>		
Balance as at January 1, 2015	(197,047,675)	15,347,750	251,390,265	69,690,340
Recognized in profit or loss	92,707,142	(5,979,543)	(96,012,084)	(9,284,485)
Balance as at December 31, 2015	(104,340,533)	9,368,207	155,378,181	60,405,855
Recognized in profit or loss	(102,477,768)	5,363,836	123,191,348	26,077,416
Balance as at December 31, 2016	<b>(206,818,301)</b>	<b>14,732,043</b>	<b>278,569,529</b>	<b>86,483,271</b>

## 10. PROPERTY, PLANT AND EQUIPMENT

	(Fig. in LKR)			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Freehold property, plant and equipment (Note 10.1 & 10.2)	3,205,033,106	5,194,589,126	3,241,295,553	5,120,301,579
Leasehold property, plant and equipment (Note 10.3 and 10.4)	38,928,334	38,928,334	30,495,977	30,495,977
	<b>3,243,961,440</b>	<b>5,233,517,461</b>	<b>3,271,791,530</b>	<b>5,150,797,556</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 10.1 Company

### Freehold Property, plant and equipment

	(Fig. in LKR)				
	Balance at the beginning of the year	Additions	Disposals/ Write off	Transfers	Balance at the end of the year
<b>Cost</b>					
Blow molding	129,238,128			-	129,238,128
Building	821,812,394	25,753,215	-	-	847,565,609
Computer	8,231,995	2,111,000		-	10,342,995
Furniture & fittings	2,763,340	112,147		-	2,875,487
Machinery and other equipment	1,817,689,849	89,034,507	-	-	1,906,724,357
Motor vehicles	168,880,780	6,383,900		-	175,264,680
Office equipment	1,932,261	2,211,027		-	4,143,288
Trade equipment	1,098,453,393	131,631,109	(46,128)	-	1,230,038,374
<b>Total</b>	<b>4,049,002,139</b>	<b>257,236,905</b>	<b>(46,128)</b>	<b>-</b>	<b>4,306,192,916</b>

	(Fig. in LKR)				
	Balance at the beginning of the year	Charge for the year	Disposals/ Write off	Transfers	Balance at the end of the year
<b>Accumulated depreciation</b>					
Blow molding	29,636,105	6,151,448	-	-	35,787,553
Buildings	53,787,673	27,739,110	-	-	81,526,783
Computer	4,538,613	1,350,105	-	-	5,888,718
Furniture & fittings	512,369	272,618	-	-	784,987
Machinery and other equipment	179,046,399	89,621,319	-	-	268,667,719
Motor vehicles	72,017,895	23,057,206	-	-	95,075,102
Office equipment	631,530	507,979	-	-	1,139,510
Trade equipment	467,536,001	144,762,552	(9,114)	-	612,289,439
<b>Total</b>	<b>807,706,586</b>	<b>293,462,339</b>	<b>(9,114)</b>	<b>-</b>	<b>1,101,159,810</b>
<b>Written down value</b>	<b>3,241,295,553</b>				<b>3,205,033,106</b>

#### Note:

- Borrowing cost amounting to Rs. 629,056,372.6 on the acquisition of property, plant & equipment has been capitalized.
- Assets pledged to obtain credit facilities from financial institutions are disclosed in Note 17.1.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 10.2 Group

### Freehold property, plant and equipment

	(Fig. in LKR)				
	Balance at the beginning of the year	Additions Subsidiary	Disposals/ Write off	Transfers	Balance at the end of the year
<b>Cost</b>					
Land	970,795,875	1,518,405	-	-	972,314,280
Buildings	913,260,876	27,656,815	-	-	940,917,691
Blow molding	129,238,128	-	-	-	129,238,128
Computers	35,520,764	3,198,549	(76,500)	-	38,642,813
Furniture & fittings	12,779,668	529,853.73	-	-	13,309,521
Motor vehicles	192,017,608	7,035,372.97	(563,224)	-	198,489,756
Machinery and other equipment	1,817,689,849	125,890,104	-	-	1,943,579,953
Office equipment	8,669,290	3,229,081	-	-	11,898,371
Plant & machinery	420,807,170	-	-	-	420,807,170
Tools & equipment	5,967,102	-	-	-	5,967,102
Trade equipment	2,475,662,309	331,844,566	(281,420,796)	-	2,526,086,079
<b>Total</b>	<b>6,982,408,638</b>	<b>500,902,747</b>	<b>(282,060,520)</b>	<b>-</b>	<b>7,201,250,864</b>

	(Fig. in LKR)				
	Balance at the beginning of the year	Additions	Disposals/ Write off	Transfers	Balance at the end of the year
<b>Accumulated depreciation</b>					
Buildings	84,550,523	34,398,980	-	-	118,949,504
Computers	29,258,949	2,136,372	(76,500)	-	31,318,821
Blow molding	29,636,105	6,151,448	-	-	35,787,553
Furniture & fittings	8,438,470	769,177	-	-	9,207,647
Motor vehicles	93,434,396	23,816,549	(563,224)	-	116,687,721
Machinery and other equipment	179,046,399	89,621,319	-	-	268,667,719
Office equipment	6,703,590	783,578	-	-	7,487,169
Plant & machinery	79,690,832	21,226,014	-	-	100,916,846
Tools & equipment	5,585,086	31,977	-	-	5,617,063
Trade equipment	1,345,762,708	235,985,381	(269,726,392)	-	1,312,021,696
<b>Total</b>	<b>1,862,107,059</b>	<b>414,920,796</b>	<b>(270,366,117)</b>	<b>-</b>	<b>2,006,661,738</b>
<b>Net book value</b>					
<b>At cost</b>	<b>5,120,301,579</b>				<b>5,194,589,126</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 10.3 Company

### Leasehold property, plant and equipment

	(Fig. in LKR)				
	Balance at the beginning of the year	Additions	Disposals/ Write off	Transfers	Balance at the end of the year
<b>Cost</b>					
Machinery and other equipment	31,099,193	-	-	-	31,099,193
Motor vehicles	-	10,548,404	-	-	10,548,404
<b>Total</b>	<b>31,099,193</b>	<b>10,548,404</b>	<b>-</b>	<b>-</b>	<b>41,647,597</b>
<b>Accumulated depreciation</b>					
Machinery and other equipment	603,217	1,480,253	-	-	2,083,469
Motor vehicles	-	635,794	-	-	635,794
<b>Total</b>	<b>603,217</b>	<b>2,116,046</b>	<b>-</b>	<b>-</b>	<b>2,719,263</b>
<b>Written down value</b>	<b>30,495,977</b>				<b>38,928,334</b>

## 10.4 Group

### Leasehold property, plant and equipment

	(Fig. in LKR)				
	Balance at the beginning of the year	Additions	Disposals/ Write off	Transfers	Balance at the end of the year
<b>Cost</b>					
Machinery and other equipment	31,099,193	-	-	-	31,099,193
Motor vehicles	-	10,548,404	-	-	10,548,404
<b>Total</b>	<b>31,099,193</b>	<b>10,548,404</b>	<b>-</b>	<b>-</b>	<b>41,647,597</b>
<b>Accumulated depreciation</b>					
Machinery and other equipment	603,217	1,480,253	-	-	2,083,469
Motor vehicles	-	635,794	-	-	635,794
<b>Total</b>	<b>603,217</b>	<b>2,116,046</b>	<b>-</b>	<b>-</b>	<b>2,719,263</b>
<b>Written down value</b>	<b>30,495,977</b>				<b>38,928,334</b>

## 11. CAPITAL WORK-IN-PROGRESS

### 11.1 Company

	(Fig. in LKR)				
	Balance at the beginning of the year	Additions	Disposals	Transfers	Balance at the end of the year
Building	-	1,141,772	-	-	1,141,772
Plant and machinery	-	189,074,174	-	-	189,074,174
	<b>-</b>	<b>190,215,946</b>	<b>-</b>	<b>-</b>	<b>190,215,946</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 11.2 Group

	(Fig. in LKR)				
	Balance at the beginning of the year	Additions	Disposals	Transfers	Balance at the end of the year
Building	-	19,626,750	-	-	19,626,750
Plant and machinery	-	189,074,174	-	-	189,074,174
	-	<b>208,700,924</b>	-	-	<b>208,700,924</b>

### NOTE:

- Borrowing cost amounting to Rs. 3.9 million has been capitalized to work in progress.

## 12. INVENTORIES

	(Fig. in LKR)			
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Finished goods	49,493,579	132,136,339	49,858,146	116,552,170
Raw materials	135,739,085	434,033,407	110,558,102	285,303,149
Chemicals and fuel	6,233,704	18,484,946	6,794,096	19,329,035
Goods in transit	-	2,150,410	-	8,606,917
Spare parts	33,320,311	60,201,812	3,769,198	54,420,003
	<b>224,786,679</b>	<b>647,006,914</b>	<b>170,979,543</b>	<b>484,211,273</b>

## 13. TRADE AND OTHER RECEIVABLES

	(Fig. in LKR)			
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Trade debtors	125,434,602	937,042,553	106,399,878	560,532,990
Less: Impairment provision for trade debtors	(95,137)	(10,988,419)	(95,137)	(12,833,168)
	<b>125,339,465</b>	<b>926,054,134</b>	<b>106,304,741</b>	<b>547,699,822</b>
Bottle deposit-others	-	-	-	290,393,751
Other receivables	209,742,375	92,184,484	138,769,703	148,417,740
Deposits and prepayments	13,759,996	51,241,068	10,333,855	28,707,203
VAT receivable	233,943,288	224,175,562	252,513,066	275,408,691
Staff loans and festival advances	1,756,746	2,848,449	897,541	1,618,355
Income tax and economic service charge receivables	6,195,072	42,013,763	1,854,151	31,284,316
	<b>590,736,942</b>	<b>1,338,517,461</b>	<b>510,673,056</b>	<b>1,323,529,878</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 14. CASH AND CASH EQUIVALENTS

	(Fig. in LKR)			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Standard chartered bank-FCBU	8,145,167	8,145,167	30,664,713	30,664,713
AXIS bank-DBU	40,346	53,659	4,086,507	5,931,028
Peoples' Bank Hanwella	-	46,206,803	-	-
Peoples' Bank-Corporate Division	-	9,194,322	-	-
Peoples' Bank-Corporate Division-Margin Money	-	1,560,911	-	-
Hatton National Bank-Kaduwela	-	1,068,000	-	895,089
Hatton National Bank-Wattala	-	609,620	-	-
National Development Bank	-	5,319,160	-	-
Standard Chartered Bank-Fort Branch	-	613,071	-	273,139
National Development Bank-Colombo 02	-	-	-	-
Saving account	-	4,168,461	-	26,271,436
Cash in hand	-	892,000	-	392,000
Commercial Bank of Ceylon PLC	-	-	-	-
	<b>9,545,513</b>	<b>79,191,173</b>	<b>34,751,220</b>	<b>64,427,405</b>

## 15. STATED CAPITAL

### Issued And Fully Paid Ordinary Shares

	(Fig. in LKR)				
<b>Varun Beverages Limited</b>	<b>No of shares</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
		<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Ordinary shares	56,775,000	567,750,000	567,750,000	567,750,000	567,750,000
Redeemable preference shares	31,066,426	3,106,642,600	3,106,642,600	1,427,057,600	1,427,057,600
		<b>3,674,392,600</b>	<b>3,674,392,600</b>	<b>1,994,807,600</b>	<b>1,994,807,600</b>

	(Fig. in LKR)				
<b>Date of Issue</b>	<b>Discount rate</b>	<b>No of Shares</b>	<b>Cost</b>	<b>Liability Component</b>	<b>Equity Component</b>
6-Jun-11	15.72%	6,813,000	681,300,000	285,738,210	395,561,790
18-Jun-15	10.56%	5,379,966	537,996,600	311,689,322	226,307,278
8-Oct-15	11.95%	2,077,610	207,761,000	112,559,973	95,201,027
2-Jun-16	14.70%	5,845,950	584,595,000	305,594,631	279,000,369
30-Sep-16	12.56%	5,056,750	505,675,000	266,103,901	239,571,099
9-Dec-16	13.98%	5,893,150	589,315,000	290,018,899	299,296,101
		<b>31,066,426</b>	<b>3,106,642,600</b>	<b>1,571,704,937</b>	<b>1,534,937,663</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 16. DEPOSIT PAYABLE

	(Fig. in LKR)			
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Bottle deposit payable	12,516,128	340,345,200	5,425,854	319,572,625
Cash deposit payable	2,503,750	31,422,615	-	19,216,096
	<b>15,019,878</b>	<b>371,767,815</b>	<b>5,425,854</b>	<b>338,788,721</b>

## 17. BORROWINGS

	(Fig. in LKR)			
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Long term loans				
People's Bank	91,710,838	131,265,838	166,433,709	232,825,492
Hatton National Bank PLC	77,260,000	160,560,000	180,940,000	180,940,000
National Development Bank	40,832,347	40,832,347	52,209,451	52,209,451
People's Leasing and finance PLC	25,720,676	25,720,676	36,053,566	36,053,566
Commercial Bank of Ceylon PLC	-	75,915,550	-	99,152,350
Sampath Bank PLC	-	33,328,000	-	46,874,000
Standard Chartered Bank	1,063,225,001	1,063,225,001	1,512,630,000	1,512,630,000
	<b>1,298,748,863</b>	<b>1,530,847,413</b>	<b>1,948,266,726</b>	<b>2,160,684,859</b>
Short term portion payable within one year	(667,371,744)	(747,167,544)	(689,917,130)	(753,581,713)
Long term portion payable after one year	631,377,119	783,679,869	1,258,349,596	1,407,103,146

### 17.1 SECURITIES PLEDGED

#### Securities Pledged for Long Term Loans

##### i People's Bank

Concurrent mortgage (with HNB Bank) over movable fixed assets, empties, shells and other assets.

Secondary concurrent mortgage over property, plant and machinery at Embulgama, Ranala.

Mortgage over property at No 140, Low Level Road, Embulgama, Ranala.

##### ii Hatton National Bank Limited

Existing secondary concurrent mortgage bond for Rs. 400 Million (HNB & PB Rs. 200 Million each) over immovable property and plant and machinery at embulgama, Ranala

Primary concurrent mortgage bond for Rs. 300 Million (HNB & PB Rs.150 Million each) over movable assets and empties & Shells at No 140 Embulgama, Ranala

Corporate Guarantee of Varun Beverages Lanka (Private) Limited for Rs. 100 Million.

##### iii NDB Bank

Primary mortgage over vehicles, personal guarantee from directors upto Rs. 64.3 Million.

##### iv People's Leasing-Term Loan

Mortgage over vehicles upto Rs. 45 Million.

# Notes to the Financial Statements

For the year ended December 31, 2016

**v Standard Chartered Bank-Term loan**

Charge on imported plant & machinery & Corporate Guarantee of Varun Beverages Limited up to USD 17 Million.

**vi Sampath Bank**

Loan agreement for Rs. 50 Million and Corporate Guarantee from Varun Beverages Lanka (Private) Limited for Rs. 50 Million.

**vii Commercial Bank**

Corporate Guarantee of Varun Beverages Lanka (Private) Limited up to Rs. 100 Million.

General terms and conditions relating to term loan of Rs. 100 Million executed by the company.

## 18. RETIREMENT BENEFIT OBLIGATIONS

			(Fig. in LKR)	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Balance at the beginning of the year	6,002,302	68,457,013	3,743,209	58,556,600
Current service cost	3,014,371	5,668,240	2,294,163	5,733,548
Interest charge for the year	300,115	3,422,850	374,321	5,855,660
	9,316,788	77,548,103	6,411,693	70,145,808
Gains arising from changes in actuarial assumptions	11,370,874	945,440	(409,391)	(784,408)
	(1,212,340)	(6,403,783)	-	(904,388)
Payments during the year	19,475,322	72,089,760	6,002,302	68,457,012
Balance at the end of the year	19,475,322	72,089,760	6,002,302	68,457,012

The following assumptions were used in determining the post employment benefit obligation :

Expected future salary increment	9%	9% and 13%	9%	9% and 13%
Discount rate	13%	13%	10%	10%

## 19. LEASE LIABILITY-HNB LEASE

			(Fig. in LKR)	
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
Balance at the beginning of the period	-	-	2,876,181	2,876,181
Lease obtained during the year	-	-	-	-
Repayments during the period	-	-	(2,876,181)	(2,876,181)
	-	-	-	-
Interest in suspense	-	-	-	-
	-	-	-	-
Payable within one year	-	-	-	-
Payable after one year	-	-	-	-
	-	-	-	-
<b>Lease Liability-Nation Trust Bank-166473412</b>				
Balance at the beginning of the period	-	-	-	-
Lease obtained during the period	7,178,220	7,178,220	-	-
Repayments during the period	(837,459)	(837,459)	-	-
	6,340,761	6,340,761	-	-
Interest in suspense	(1,535,990)	(1,535,990)	-	-
	4,804,771	4,804,771	-	-
Payable within one year	(861,123)	(861,123)	-	-
Payable after one year	3,943,649	3,943,649	-	-



# Notes to the Financial Statements

For the year ended December 31, 2016

	(Fig. in LKR)			
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
<b>Lease Liability-Nation Trust Bank-166473519</b>				
Balance at the beginning of the period		-		
Lease obtained during the period	3,151,860	3,151,860		
Repayments during the period	(367,717)	(367,717)	-	-
	2,784,143	2,784,143	-	-
Interest in suspense	(674,411)	(674,411)	-	-
	2,109,732	2,109,732	-	-
Payable within one year	(378,106)	(378,106)	-	-
Payable after one year	1,731,626	1,731,626	-	-

## Security Pledged

Mortgage over vehicles

	(Fig. in LKR)			
	Company	Group	Company	Group
	31.12.2016	31.12.2016	31.12.2015	31.12.2015
<b>Lease Liability-Melsta Regal Finance Limited-FL/ HOF/15/00959</b>				
Balance at the beginning of the period	24,316,639	24,316,639	-	
Lease obtained during the period	-	-	27,352,044	27,352,044
Repayments during the period	(9,877,788)	(9,877,788)	(3,035,405)	(3,035,405)
	14,438,851	14,438,851	24,316,639	24,316,639
Interest in suspense	(1,554,541)	(1,554,541)	(3,883,617)	(3,883,617)
	12,884,310	12,884,310	20,433,022	20,433,022
Payable within one year	(7,802,236)	(7,802,236)	(2,561,242)	(2,561,242)
Payable after one year	5,082,074	5,082,074	17,871,780	17,871,780
<b>Lease Liability-Melsta Regal Finance Limited-FL/ HOF/15/01024</b>				
Balance at the beginning of the period	2,971,785	2,971,785	-	
Lease obtained during the period	-	-	3,236,256	3,236,256
Repayments during the period	(1,170,271)	(1,170,271)	(264,471)	(264,471)
	1,801,514	1,801,514	2,971,785	2,971,785
Interest in suspense	(202,528)	(202,528)	(487,365)	(487,365)
	1,598,986	1,598,986	2,484,421	2,484,421
Payable within one year	(912,509)	(912,509)	(793,940)	(793,940)
Payable after one year	686,478	686,478	1,690,481	1,690,481
Total payable within one year	9,953,973	9,953,973	3,355,182	3,355,182
Total payable after one year	11,443,827	11,443,827	19,562,261	19,562,261
Total lease payable	21,397,800	21,397,800	22,917,443	22,917,443

## Security Pledged

Mortgage over Husky Machinery Spares

# Notes to the Financial Statements

For the year ended December 31, 2016

## 20. SHORT TERM BORROWINGS

			(Fig. in LKR)	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
People's Bank	29,350,000	61,915,022	50,170,637	271,241,253
Hatton National Bank PLC	-	146,560,000	37,270,000	193,945,620
Standard Chartered Bank	324,959,385	324,959,385	72,873,490	72,873,490
National Development Bank PLC	-	120,545,102	-	143,378,156
Sampath Bank PLC	-	43,300,000	-	32,837,598
Accor Developer (Private) Limited	309,846,600	309,846,600	394,668,771	394,668,771
Orient Finance PLC	-	-	-	85,864,981
Accor Industries (Private) Limited	-	-	-	181,077,829
Softlogic Finance PLC	-	2,944,445	-	44,527,778
Short term portion of long term liability (Note 16)	667,371,744	747,167,544	689,917,130	753,581,713
	<b>1,331,527,729</b>	<b>1,757,238,098</b>	<b>1,244,900,028</b>	<b>2,173,997,189</b>

## 21. TRADE AND OTHER PAYABLES

			(Fig. in LKR)	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Trade payables	59,653,414	395,034,867	18,228,142	255,867,427
Stamp duty	51,775	117,375	29,600	95,350
Excise duty	-	119,276,752	-	90,071,540
Nation building tax	-	3,048,611	-	1,601,500
Accrued and other payables	16,924,332	140,497,674	10,021,859	129,573,046
Economic service charge payable	965,085	6,234,351	-	-
Deposit payables	176,861	176,861	248,147	248,147
Other creditors	43,540,718	43,540,718	110,658,109	110,658,109
Bonus payable	-	-	200,000	912,096
	<b>121,312,187</b>	<b>707,927,210</b>	<b>139,385,857</b>	<b>589,027,215</b>

## 22. BANK OVERDRAFT

			(Fig. in LKR)	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Peoples' Bank-Corporate Division	29,894,681	29,894,681	45,654,158	83,459,198
Hatton National Bank PLC-Kaduwela	23,200,618	132,822,051	67,832,554	179,249,666
Standard chartered bank-Fort	305,980,859	305,980,859	168,012,557	168,012,557
Peoples' Bank-Hanwella	-	-	-	7,852,876
Sampath Bank	-	96,235,007	-	90,246,238
National Development Bank	8,482,585	8,482,585	9,939,718	10,952,429
Commercial Bank of Ceylon PLC	516,023	22,660,632	-	24,245,367.39
	<b>368,074,767</b>	<b>596,075,816</b>	<b>291,438,987</b>	<b>564,018,331</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 22.1 Securities pledged for short term loan & bank overdrafts

a) People's Bank	Secondarily concurrent mortgage over property, plant & machinery for Rs. 200 Million. Concurrent mortgage over moveable fixed assets and other assets (Empties shells) for Rs. 150 Million
b) Hatton National Bank	Mortgage over property plant & machinery and empty bottles at no 140, low level road, Embulgama, Ranala. Documents of titled of goods shipped, indemnity of the company. Concurrent mortgage over property No 140, Low Level road Embulgama, Ranala for Rs. 367 Million (People's Bank - Rs. 197 Million, HNB - Rs.170 Million) on 1st Pari Passu basis First pari passu charge for Rs. 367 Million on the immovable plant & machinery at No 140, Low Level Road, Embulgama, Ranala (People's Bank - Rs. 197 Million, HNB - Rs. 170 Million) Documents of title of goods. Existing registered primary floating mortgage bond over stock and debtors for 100 Million at no 140, low level Road, Corporate guarantee of Varun Beverages Lanka (Private) Limited
c) Standard Chartered Bank	Primary concurrent mortgage over stocks and receivables of Varun Beverages Lanka (Private) Limited and Ole Springs Bottlers (Private) Limited for Rs. 450 Million Corporate Guarantee from Varun Beverages Limited for Rs. 260M
d) Sampath Bank	Short term import loan agreement for Rs. 50 Million+overdraft agreement for Rs. 100 Million+ Hypothecation bond over stock and book debts for Rs. 150 Million+ Corporate guarantee of Varun Beverages Lanka (Private) Limited for Rs. 150 Million.
e) National Development Bank	Primary mortgage stocks and book debts of Varun Beverages Lanka (Private) Limited and Ole Springs Bottlers (Private) Limited for Rs. 150 Million
f) Soft Logic Finance PLC	Mortgage of machinery worth of Rs. 90 Million+Corporate Guarantee from Varun Beverages Lanka (Private) Limited
g) Commercial Bank	Corporate Guarantee of Varun Beverages Lanka (Private) Limited up to Rs. 25 Million. Primary concurrent mortgage for Rs. 800 Million along with Standard Chartered Bank, Nation Development Bank, Hatton National Bank over Stocks & Book debts to be executed, general term and conditions relating to overdraft for Rs. 15 Million to be executed by the company. General terms and conditions relating to import demand loan & short term loan for Rs. 100 Million executed by the company.

## 23. RELATED PARTY TRANSACTIONS

### Identification of related parties

Related parties include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company.

During the year Mr. Ravi Kant Jaipuria, Mr. Vishal Jain, Mr. Ajay Kumar Bhartia and Mr.Tilak de Zoysa were the directors of the company.

(Fig. in LKR)

	Amount due from related parties		Amount due to related parties	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Ole Springs Bottlers (Private) Limited	233,775,287	-	-	-
Varun Beverages Limited	-	-	78,966,619	140,570,924
<b>Fellow Subsidiaries</b>				
Varun Beverages Mozambique Limited	3,662,189	3,662,189	-	-
Varun Beverages (Zambia) Limited	25,922,439	25,922,439	-	-
	<b>263,359,915</b>	<b>29,584,627</b>	<b>78,966,619</b>	<b>140,570,924</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

(Fig. in LKR)

	Amount due from related parties		Amount due to related parties	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Ole Springs Bottlers (Private) Limited	-	-	297,309,561	-
Varun Beverages Limited	-	-	215,040,487	290,629,921
<b>Fellow Subsidiaries</b>				
Varun Beverages Mozambique Limited	11,072,018	11,072,018	-	-
Varun Beverages (Zambia) Limited	40,638,364	40,638,364	-	-
	<b>51,710,381</b>	<b>51,710,381</b>	<b>512,350,048</b>	<b>290,629,921</b>

During the year, the company entered into the following transactions with the related parties.

## Company

(Fig. in LKR)

	Sales / (Purchases)		Other transactions	
	January to December 2016	January to December 2015	January to December 2016	January to December 2015
Ole Springs Bottlers (Private) Limited	451,257,560	386,260,128	223,636,672	(804,257,429)
Varun Beverages Limited	(41,635,442)	6,392,050	177,709,309	(81,092,765)
<b>Fellow Subsidiaries</b>				
Varun Beverages Mozambique Limited	3,589,040	14,862,687	(10,998,869)	-
Varun Beverages Zambia Limited	18,418,989	44,850,059	(33,134,914)	-
	<b>431,630,147</b>	<b>452,364,925</b>	<b>357,212,198</b>	<b>(885,350,194)</b>

## Group

(Fig. in LKR)

	Sales / (Purchases)		Other transactions	
	January to December 2016	January to December 2015	January to December 2016	January to December 2015
Vaurn Beverages Limited	(135,454,656)	(73,030,616)	69,904,965	(134,404,885)
<b>Fellow Subsidiaries</b>				
Varun Beverages Mozambique Limited	3,589,040	14,862,687	(10,998,869)	-
Varun Beverages Zambia Limited	18,418,989	44,850,059	(33,134,914)	-
	<b>(113,446,626)</b>	<b>(13,317,870)</b>	<b>25,771,182</b>	<b>(134,404,885)</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 24. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Key management personnel include members of the Board of Directors of the Company and its subsidiaries, and the ultimate parent company, RJ Corp Limited, India.

There was no compensation paid to key management personnel during the year other than the following:

	(Fig. in LKR)			
	<u>Company</u>	<u>Group</u>	<u>Company</u>	<u>Group</u>
	<u>Year ended</u> <u>31.12.2016</u>	<u>Year ended</u> <u>31.12.2016</u>	<u>Year ended</u> <u>31.12.2015</u>	<u>Year ended</u> <u>31.12.2015</u>
Directors emoluments	10,293,359	10,293,359	13,281,788	13,281,788

## 25. CAPITAL COMMITMENTS AND CONTINGENCIES

The Department of Inland Revenue has issued an assessment for income tax filed for the year of assessment 2010/11 of the amount of Rs. 60,675,578/- and the company has appealed against the assessment and settlement which is still pending.

The Department of Inland Revenue has issued an assessment on Income tax for the Year of assessment 2013/14 and 2014/15 on which future c/f loss will be reduced by Rs. 247,665,087/- and Rs. 372,708,484/- respectively. The appeal has been filed against the assessment.

The Department of Inland Revenue has issued assessment for the PAYE tax for the Y/A 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, and total amount is Rs. 1,388,779/-. All cases have been appealed and pending to settle.

The Department of Inland Revenue has issued an assessment for income tax filed for the year of assessment 2013/2014 to its subsidiary Ole Springs Bottlers (Private) Limited of the amount of Rs. 9,550,038/- and the company has appealed against the assessment and settlement is still pending.

The Department of Inland Revenue has issued an assessments for VAT for the year 2013 (4 Periods) on its subsidiary Ole Springs Bottlers (Private) Limited of the amount of Rs. 412,010,752 and the company has appealed against the assessment.

Sri Lanka Customs has filed a case against its subsidiary Ole Springs Bottlers (Private) Limited imposing a penalty of Rs. 11,742,202/- in 2015 with regard to preform clearance and the trials are in progress.

Legal cases have been filed against the Company worth of Rs. 1,975,000/- and to its subsidiary Ole Spring Bottlers (Private) Limited of Rs. 490,000/- for employee and product related matters.

Estimated amount of the contracts remaining to be executed on capital account not provided for (net of advance) is Rs. 141,566,774/-

Apart from the above, there were no significant contingent liabilities and capital commitments as at the reporting period end that would require adjustments to/or disclosure in the group financial statements.

## 26. EVENTS AFTER THE REPORTING PERIOD END

There were no significant events after the reporting period end which require adjustments to or disclosure in the financial statements.

# Detailed Notes to the Financial Statements

For the year ended December 31, 2016

## 1. ADMINISTRATIVE EXPENSES

	(Fig. in LKR)			
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
<b>Administrative Expenses</b>				
Salaries-staff	26,207,442	37,949,752	20,669,991	28,963,885
Overtime	1,148,968	3,937,413	801,899	2,513,596
Staff training expenses	-	-	-	10,000
Allowances	-	796,756	-	289,763
Bonus	1,997,597	2,477,955	1,415,502	2,615,316
Compensation	-	237,636	-	235,915
Tea and fooding	-	10,532,551	-	1,469,136
Medical expenses	1,100,851	1,454,370	847,769	1,116,574
Terminal gratuity	462,191	783,525	411,640	791,020
Employees' provident fund	2,121,266	2,584,377	1,259,140	1,772,710
Employees' trust fund	786,223	1,138,230	620,100	868,553
Foreign travelling	1,552,221	5,296,800	2,799,939	11,999,545
External auditors' remuneration	1,410,922	2,461,182	590,539	1,358,289
Internal auditors' remuneration	122,086	1,439,681	2,166,693	2,166,693
Auditors expense reimburse	-	96,316	-	-
Telephone	720,658	2,604,904	743,790	2,244,946
Printing and stationery	192,481	7,036,179	95,673	4,925,743
Postage and telegrams	-	717,351	-	339,875
Stamp duty	235,818	501,993	4,095,288	5,071,648
Repairs and maintenance-vehicles	114,718	20,266,196	298,129	7,748,179
Depreciation - Building	27,739,110	28,744,800	25,585,659	26,614,948
- Furniture and fittings	272,618	445,741	255,556	427,825
- Office equipment	507,979	774,163	175,982	392,011
- Motor vehicle	23,693,000	24,199,301	19,193,510	19,664,066
- Computer	1,350,105	1,874,284	1,543,548	1,983,487
- Blow molding	6,151,448	6,151,448	6,126,174	6,126,174
- Plant and machinery	91,101,572	91,101,572	80,664,175	80,664,175
Computer maintenance	786,992	2,959,195	853,125	2,975,736
Fees and penalties	295,578	357,378	-	196,172
Motor vehicle insurance	86,892	178,550	114,927	550,591
Staff welfare	3,221,281	3,848,427	4,276,058	4,288,153
Equipment repairs and maintenance	393,977	393,977	403,889	403,889
Rent and accommodation charges	35,109,353	37,368,353	8,563,119	8,563,119
Survey/valuation fee	-	-	328,850	328,850
Courier charges	819,460	819,460	565,035	565,035
Legal fee	-	-	281,000	1,431,550
Staff recruitment	500,000	508,000	114,360	114,360
Subscriptions and periodicals	860,324	1,357,283	771,467	1,074,491
ROC document fees	-	62,650	-	-
Entertainment	233,792	262,852	212,735	305,835
Electricity charges	383,926	383,926	445,275	445,275
BOI charges	358,725	358,725	298,002	298,002
Insurance staff	1,693,020	1,693,020	1,568,256	1,568,256
Other allowance to staff	4,002,425	4,002,425	2,164,318	2,164,318

# Detailed Notes to the Financial Statements

For the year ended December 31, 2016

			(Fig. in LKR)	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
NBT expenses	4,049,254	4,049,254	4,447,303	4,447,303
Legal & professional charges	3,904,683	8,537,755	3,319,353	5,994,707
Accounting charges	-	519,897	-	488,356
Travelling and transport	598,851	3,332,421	558,634	1,194,925
Other taxes	9,700,062	13,279,572	3,133,244	12,327,231
Donations	-	31,201	-	-
Other clearing charges	-	-	309,731	309,731
Administrative service expenses	-	-	-	-
Vehicle running expenses	-	-	-	-
Wages	64,200	4,809,026	955,071	1,618,850
Land lease rental	2,880,000	-	1,970,000	-
Sundry written off	30,096	30,079	(200)	(200)
Water	24,654	68,012	25,184	25,184
Tax in default	-	-	-	101,792
Fuel	-	2,314,727	-	166,770
	<b>258,986,821</b>	<b>347,130,642</b>	<b>206,039,429</b>	<b>264,322,353</b>

## 2. SELLING AND DISTRIBUTION EXPENSES

			(Fig. in LKR)	
	Company 31.12.2016	Group 31.12.2016	Company 31.12.2015	Group 31.12.2015
Salaries-staff	102,005,910	132,925,552	58,726,808	71,831,156
Wages	223,457	43,478,010	669,759	30,329,387
Overtime	5,280,104	15,842,064	1,195,307	2,627,898
Bonus	9,584,539	12,276,527	5,678,473	7,574,178
Employees' provident fund	11,234,886	12,375,869	5,749,562	6,489,466
Employees' trust fund	2,956,359	3,884,090	1,761,484	2,154,615
Medical expenses	4,349,951	4,808,599	1,831,580	2,007,389
Conference and meeting expenses	1,419,826	1,905,082	1,600,528	1,868,830
Terminal gratuity	1,736,925	2,583,054	1,169,535	1,768,955
Security charges	-	1,308,077	-	-
Telephone	3,929,105	3,978,646	2,493,351	2,520,729
Electricity	-	1,048,895	-	565,842
Printing and stationery	1,438,513	1,438,513	325,514	722,561
Sales promotion and discounts	11,336,673	837,159,689	31,304,631	495,309,641
Meals expenses	18,776,495	18,776,495	5,879,334	6,509,854
Direct operation expenses	-	-	-	-
Other allowance to staff	26,013,372	30,303,991	8,142,952	14,987,381
Staff Incentive	3,699,279	51,243,996	498,346	17,774,368
Rent and accommodation expenses	492,834	492,834	686,694	686,694
Postage and courier charges	-	-	-	-
Staff welfare	240,248	393,168	380,046	625,014
Travelling expenses	653,110	1,429,776	1,387,137	1,589,439
Transport expenses	34,075,593	308,862,078	12,385,264	193,274,424
Foreign travelling	1,383,407	1,383,407	2,095,416	2,095,416

# Detailed Notes to the Financial Statements

For the year ended December 31, 2016

			(Fig. in LKR)	
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>31.12.2016</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2015</b>
Vehicle maintenance expenses	19,746,301	19,746,301	15,962,017	16,160,362
Motor vehicle fuel	13,163,523	25,563,677	926,925	12,803,904
Tea and fooding-field expenses	-	9,894,843	-	12,242,750
Staff recruitment charges	940,000	940,000	570,436	570,436
Export handling charges	3,442,890	3,745,917	2,643,777	2,867,561
Leakage and breakage	351,467	32,339,939	35,978	23,738,692
Contract outlet expenses	3,605,830	30,360,780	2,100,002	34,705,982
Repair and maintenance	-	-	-	48,216
Sundry written off	-	184,081	-	-
Provision for doubtful debtors	-	-	95,137	10,970,601
Entertainment	10,500	10,500	-	-
Sundry written off	-	-	-	-
Depot rent	-	5,935,640	-	2,986,640
Loading unloading charges	-	868,354	-	-
Trade equipment maintenance	2,278,882	19,882,164	-	4,234,285
Trade equipment damage	-	1,289,228	-	-
Depreciation-trade equipment	144,762,552	156,288,444	141,328,091	144,038,149
Trade equipment hire charges	-	-	-	-
	<b>429,132,528</b>	<b>1,794,948,279</b>	<b>307,624,083</b>	<b>1,128,680,814</b>





Sri Lanka  
(Ole Springs)

# Independent Auditor's Report

## To the Shareholders of Ole Springs Bottlers (Private) Limited

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Ole Springs Bottlers (Private) Limited, ("the Company"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year ended December 31, 2016, and a summary of significant accounting policies and other explanatory information.

### BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors ("the Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs), and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, if any, made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### BASIS FOR QUALIFIED OPINION

1. As disclosed in Note 13 to the financial statements, the company's redeemable preference shares, carried at a cost of Rs. 175,544,380, is accounted for under equity. According to Section 22 of the SLFRS for SMEs, this instrument should initially be measured at the fair value of the future cash payments. However, due to the non-availability of the terms and conditions, the impact cannot be quantified.

### QUALIFIED OPINION

In our opinion, except for the possible effects arising from the matter referred to in the preceding paragraph, under basis for qualified opinion these financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and cash flows for the year ended December 31, 2016 then ended in accordance with the Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs).

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of qualified opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
  - except for above matter referred to in the basis for qualified opinion, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
  - the financial statements of the Company, comply with the requirements of Section 151 of the Companies Act.

# Statement of Comprehensive Income

For the year ended December 31, 2016

	Note	Year ended 31.12.2016	(Fig. in LKR) Year ended 31.12.2015
Revenue		4,669,376,329	2,980,356,210
Cost of sales		(2,788,596,830)	(2,005,061,167)
Gross profit		1,880,779,498	975,295,043
Other income	4	18,912,178	12,502,575
Administrative expenses		(134,223,808)	(103,452,922)
Selling and distribution expenses		(1,476,639,999)	(950,698,981)
Profit/(loss) from operations	5	288,827,869	(66,354,284.39)
Finance and other costs	6	(173,578,837)	(133,213,482)
<b>Profit/(loss) before tax</b>		<b>115,249,032</b>	<b>(199,567,767)</b>
Income tax (expense)/reversal	7	6,272,037	(10,630,246)
<b>Profit/(loss) for the year</b>		<b>121,521,069</b>	<b>(210,198,013)</b>
<b>Other comprehensive income/expenses</b>			
Actuarial gain on employee benefit obligations, net of tax		10,425,434	375,017
<b>Total comprehensive income /(expenses) for the year</b>		<b>131,946,503</b>	<b>(209,822,996)</b>

The accounting policies and notes from 01 to 22 form an integral part of these financial statements.

# Statement of Financial Position

As At December 31, 2016

	Note	31.12.2016	(Fig. in LKR) 31.12.2015
<b>Assets</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	8	1,611,556,022	1,501,006,026
Investment property	9	378,000,000	378,000,000
Capital work-in progress		18,484,983	-
Deferred tax	7.3	86,483,271	60,405,855
		<b>2,094,524,275</b>	<b>1,939,411,881</b>
<b>Current Assets</b>			
Inventories	10	424,728,547	316,423,508
Trade and other receivables	11	863,876,558	794,483,479
Amount due from related parties	20	-	297,309,553
Deposits and prepayments	12	37,481,071	18,373,348
Cash and cash equivalents		69,645,660	29,676,185
		<b>1,395,731,835</b>	<b>1,456,266,073</b>
<b>Total Assets</b>		<b>3,490,256,111</b>	<b>3,395,677,954</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Stated capital	13	978,416,450	978,416,450
Retained earnings		260,891,393	145,783,079
<b>Total Equity</b>		<b>1,239,307,843</b>	<b>1,124,199,529</b>
<b>Non Current Liabilities</b>			
Deposits payable	14	356,747,937	333,362,864
Borrowings	15	152,302,750	148,753,550
Retirement benefit obligations	16	52,614,439	62,454,712
		<b>561,665,126</b>	<b>544,571,126</b>
<b>Current Liabilities</b>			
Borrowings	15	79,795,800	63,664,583
Short term loans	17	345,914,569	865,432,579
Trade and other payables	18	740,192,134	449,641,359
Amounts due to related parties	20	295,379,591	75,589,435
Bank overdrafts	19	228,001,049	272,579,343
<b>Total Current Liabilities</b>		<b>1,689,283,143</b>	<b>1,726,907,299</b>
<b>Total Equity and Liabilities</b>		<b>3,490,256,111</b>	<b>3,395,677,954</b>

I certify that the financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007

## Vishal Jain

Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements signed for and on behalf of the Board.

## Ajay Kumar Bhartia

Director

January 31, 2017

## Vishal Jain

Director

January 31, 2017

The accounting policies and notes from 01 to 22 form an integral part of these financial statements.

# Statement of Changes in Equity

For the year ended December 31, 2016

	(Fig. in LKR)		
	Stated Capital	Retained Earnings	Total
<b>Balance as at 01.01.2015</b>	978,416,450	355,606,075	1,334,022,525
<b>Total comprehensive income for the year</b>			
Loss for the year	-	(210,198,013)	(210,198,013)
Other comprehensive income for the year	-	375,017	375,017
<b>Balance as at 31.12.2015</b>	978,416,450	145,783,079	1,124,199,529
<b>Total comprehensive income for the year</b>			
Profit for the year	-	121,521,069	121,521,069
Depreciation on revalued asset		(16,838,190)	(16,838,190)
Other comprehensive income for the year	-	10,425,434	10,425,434
<b>Balance as at 31.12.2016</b>	<b>978,416,450</b>	<b>260,891,393</b>	<b>1,239,307,843</b>

The accounting policies and notes from 01 to 22 form an integral part of these financial statements.

# Statement of Cash Flows

For the year ended December 31, 2016

	Year ended 31.12.2016	Year ended 31.12.2015
		(Fig. in LKR)
<b>Cash flows from operating activities</b>		
Operating profit/(loss) before interest and taxation	288,827,869	(66,354,284)
<b>Adjustments for:</b>		
Depreciation	104,620,267	118,692,024
Bottles and crates damaged	10,368,161	7,275,945
Trade equipment damaged	1,289,228	
Provision for doubtful debts	-	10,875,464
Provision for gratuity	5,776,604	8,920,724
Operating profit before working capital changes	410,882,129	79,409,873
(Increase)/decrease in inventories	(108,305,038)	(48,123,107)
(Increase)/decrease in trade and other receivables	(90,659,868)	262,468,949
(Increase)/decrease in deposits and prepayments	(19,107,723)	(8,791,746)
Increase/(decrease) in intercompany receivables	297,309,553	(297,309,553)
Increase/(decrease) in trade and other payables	313,935,848	155,815,016
Increase/(decrease) in intercompany payables	219,790,157	(94,577,198)
Cash generated from operations	1,023,845,057	48,892,234
Income tax paid	1,461,410	296,895
Interest paid	(173,578,837)	(133,213,481)
Gratuity paid	(5,191,443)	(904,389)
Cash flows from operating activities	846,536,187	(84,928,741)
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(262,150,824)	(220,684,686)
Proceeds on sale of property, plant and equipment	-	-
Net cash utilized in investing activities	(262,150,824)	(220,684,686)
<b>Cash flows from financing activities</b>		
Net borrowings	(499,837,593)	294,945,435
Net cash utilized in financing activities	(499,837,593)	294,945,435
Net increase in cash and cash equivalents	84,547,770	(10,667,992)
Cash and cash equivalents at the beginning of the year	(242,903,158)	(232,235,166)
Cash and cash equivalents at the end of the year	(158,355,389)	(242,903,158)
Analysis of cash and cash equivalents at the end of the year		
Cash in hand and cash at bank	69,645,660	29,676,185
Bank overdraft	(228,001,049)	(272,579,343)
	(158,355,389)	(242,903,158)

The accounting policies and notes from 01 to 22 form an integral part of these financial statements.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 1. GENERAL

### 1.1 Reporting entity

Ole Springs Bottlers (Private) Limited (the "Company") is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office and the principle place of business is located at 140, Low Level Road, Embulgama, Ranala.

### 1.2 Principal activities and nature of operations

The company is engaged in the business of manufacturing, selling and distribution of non-alcoholic beverages.

### 1.3 Parent and ultimate parent enterprises

The Varun Beverages Lanka (Private) Limited is the parent company and the company's ultimate parent undertaking is RJ Corp Limited. Intermediate parent and ultimate parent company is incorporated in Sri Lanka and India respectively.

### 1.4 Date of authorization for issue

The financial statements were approved for issue by the Board of Directors on January 31, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements have been prepared on a going concern basis and in compliance with the Sri Lanka Accounting Standard for Small and Medium-Sized Entities (SLFRS for SMEs) laid down by The Institute of Chartered Accountants of Sri Lanka except for Note 2.8.2.

All values presented in the financial statements are in Sri Lanka Rupees (Rs.) rounded to the nearest rupee. The measurement basis used is the historical cost basis.

The previous period figures and phrases have been reclassified whenever necessary to conform to current year presentation. The current year figures cannot be directly compared with comparative figures in relation to statement of changes in equity due to the difference in reporting periods.

### 2.2 Foreign currency and presentation currency

The financial statements are presented in Sri Lankan rupees, which is the company's functional and presentation currency. All financial information presented has been rounded to the nearest rupee, unless otherwise stated.

### 2.3 Revenue

#### 2.3.1 Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

#### 2.3.2 Interest

Interest income is recognized on accrual basis.

#### 2.3.3 Other gains and losses

Net gains and losses of a revenue nature arising from disposal of plant and equipment and other non-current assets are accounted for in the income statement after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

#### 2.3.4 Others

Other income is recognized on an accrual basis.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 2.4 Expenditure recognition

Expenses are recognized in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency have been charged to revenue in arriving at the profit/(loss) for the period.

## 2.5 Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the company. All other leases are classified as operating lease.

Rights to assets held under finance leases are recognized as assets of the company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the commencement of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets. Rentals payable under operating lease are charged to profit or loss on a straight-line basis over the term of the relevant lease.

## 2.6 Borrowing cost

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

### 2.7.1 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

#### Current tax

The provision for income tax is based on the elements of income and expenditures as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act. No 10 of 2006.

#### Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognized in profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 2.8 Stated capital

### 2.8.1 Ordinary shares

Ordinary shares are classified as equity.

### 2.8.2 Redeemable preference shares

The company has classified redeemable preference shares under equity.



# Notes to the Financial Statements

For the year ended December 31, 2016

## 2.9 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of property, plant and equipment the cost of replacing parts of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred. Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method is as follows:

Assets	Rate (%)
Computers	25.00
Furniture and Fittings	10.00
Motor Vehicles	14.29
Trade Equipment	12.50
Office Equipment	25.00
Buildings	3.34
Plant and Machinery	4.75
Tools and Equipment	4.75
Bottles and Crates	12.50

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other gains/ (losses) – net' in the statement of comprehensive income.

### 2.9.1 Investment property

Investment property, which is a property held to earn rentals and/ or for capital appreciation is measured at cost including transaction cost. Subsequent to the initial recognition, investment property is measured at cost less any impairment losses. The investment property consist of a freehold land which is occupied by the parent company.

### 2.9.2 Impairment of non-financial assets

At each reporting date, property, plant and equipment, investment property and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss for a non-financial asset other than goodwill subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss recognized for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 3.1 Financial instruments

Trade and other receivables are initially recognized at the transaction price. All sales are made on the basis of normal credit terms, and the receivables do not bear interest. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

Financial liabilities are initially recognized at the transaction price (including transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortized cost using the effective interest method.

### 3.2.1 Defined benefit plan – Gratuity

The cost of the defined benefit plan, the gratuity obligation, is determined using the projected unit credit method which involves making assumptions regarding discount rates and future salary increase. Due to the long-term nature of these plans, such estimates are subject to uncertainty. All assumptions are reviewed at each reporting date.

### 3.2.2 Defined contribution plan-EPF & ETF

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the Income Statement as in the periods during which services are rendered by employees.

### Employees' Provident Fund

The company and employees contribute 12% and 8% respectively of the salary of each employee to the approved Provident Fund.

### Employees' Trust Fund

The company contributes 3% of the salary of each employee to the Employees' Trust Fund.

## 3.3 Judgments and key sources of estimation of uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

## 3.4 Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. The costs incurred in bringing the inventories to its present location and condition, are accounted for as follows:

**Raw materials**-On actual cost on a weighted average basis

**Finished goods**-Valued at standard cost basis

**Other inventories**-On actual cost on a weighted average basis

## 3.5 Events after the reporting period date

All material events after the reporting period date are considered and where necessary adjustments have been made in the financial statements.

## 3.6 Capital commitments and contingencies

Capital expenditure and contingent liabilities as at the reporting period date are disclosed in the notes to the accounts.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 4. OTHER INCOME

	(Fig. in LKR)	
	Year ended 31.12.2016	Year ended 31.12.2015
Scrap sales	12,197,064	7,852,948
Rent income	2,880,000	2,690,000
Miscellaneous income	2,596,397	-
Bad debt recover reversal	-	57,144
Interest income from saving account	1,238,717	995,857
	<b>18,912,178</b>	<b>11,595,948</b>

## 5. PROFIT/(LOSS) BEFORE TAX IS STATED AFTER CHARGING ALL EXPENSES INCLUDING THE FOLLOWING:

	(Fig. in LKR)	
	Year ended 31.12.2016	Year ended 31.12.2015
Personnel cost	223,823,341	74,815,788
Defined contribution plan costs-EPF & ETF	11,031,372	7,217,133
Provision for gratuity	5,776,604	3,439,385
Bonus	12,638,157	8,981,574
Depreciation	104,620,267	118,692,024
Auditor's fees-audit related	1,050,260	767,750

## 6. FINANCE AND OTHER COSTS

	(Fig. in LKR)	
	Year ended 31.12.2016	Year ended 31.12.2015
Bank overdraft interest	29,976,050	24,274,196
Bank charges	4,160,058	6,600,805
Long term loan interest	35,013,948	8,108,326
Exchange rate loss	9,499,955	3,810,251
Trust receipt loan interest	91,806,090	84,031,937
Interest charge gratuity	3,122,735	5,481,339
	<b>173,578,837</b>	<b>132,306,854</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 7. TAXATION

### 7.1 Income tax expense

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
Deferred tax provision/(reversal)	(26,077,416)	9,284,485
Income tax expense - Current period	21,266,789	198,872
- Deemed dividend tax	-	1,443,784
- Previous year assessed	(1,461,410)	(296,895)
	<b>(6,272,037)</b>	<b>10,630,246</b>

### 7.2 Reconciliation of the total tax charge

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
Accounting profit/(loss) as per income tax computation	115,249,032	(199,567,767)
Allowable credits		
Non-deductible expenses	(181,927,763)	(119,081,267)
Adjusted profit/(loss)	182,290,505	180,805,373
Income from trade	115,611,774	(137,843,660)
Interest income	-	-
Tax loss claimed up to 35%	1,238,717	1,092,702
Taxable income	(40,897,672)	(382,446)
Tax at the applicable tax rate of 28%	75,952,819	710,256
	<b>21,266,789</b>	<b>198,872</b>

### 7.3 Deferred Tax Balances

	(Fig. in LKR)			
	<b>Property, plant &amp; equipment</b>	<b>Retirement benefit obligation</b>	<b>Unused tax losses</b>	<b>Total</b>
Balance as at January 1, 2015	(197,047,675)	15,347,750	251,390,265	69,690,340
Recognized in profit or loss	92,707,142	(5,979,543)	(96,012,084)	(9,284,485)
Balance as at December 31, 2015	(104,340,533)	9,368,207	155,378,181	60,405,855
Recognized in profit or loss	(102,477,768)	5,363,836	123,191,348	26,077,416
<b>Balance as at December 31, 2016</b>	<b>(206,818,301)</b>	<b>14,732,043</b>	<b>278,569,529</b>	<b>86,483,271</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 8. PROPERTY, PLANT AND EQUIPMENT

	31.12.2016	31.12.2015
Freehold property, plant and equipment (Note 8.1)	1,611,556,022	1,501,006,026
	<b>1,611,556,022</b>	<b>1,501,006,026</b>

(Fig. in LKR)

### 8.1 Freehold Property, Plant and Equipment

Cost	Balance as at 01.01.2016	Additions	Disposals/ Write Off	Balance as at 31.12.2016
Land	592,795,875	1,518,405		594,314,280
Buildings	91,448,482	1,903,600		93,352,082
Plant & machinery	420,807,170	36,855,596		457,662,766
Office equipment	6,737,029	1,018,054		7,755,083
Furniture & fittings	10,016,328	417,707		10,434,035
Computers	27,288,769	1,087,549	(76,500)	28,299,818
Trade equipment	398,400,807	57,914,634	(240,594,817)	215,720,624
Tools & equipment	5,967,102	-		5,967,102
Motor vehicles	23,136,828	651,473	(563,224)	23,225,077
Bottles and crates	961,762,583	142,298,823	(40,779,851)	1,063,281,556
Total	<b>2,538,360,973</b>	<b>243,665,842</b>	<b>(282,014,392)</b>	<b>2,500,012,423</b>

(Fig. in LKR)

Accumulated Depreciation	Balance as at 01.01.2016	Additions	Disposals/ Write Off	Balance as at 31.12.2016
Buildings	30,762,850	6,659,870		37,422,720
Plant & machinery	79,690,832	21,226,014		100,916,846
Office equipment	6,072,060	275,599		6,347,659
Furniture & fittings	7,926,101	496,559		8,422,660
Computers	24,720,336	786,267	(76,500)	25,430,103
Trade equipment	321,485,651	11,525,891	(239,305,589)	93,705,953
Tools & equipment	5,585,086	31,977		5,617,063
Motor vehicles	21,416,501	759,342	(563,224)	21,612,619
Bottles and crates	539,695,530	79,696,937	(30,411,689)	588,980,777
Total	<b>1,037,354,947</b>	<b>121,458,457</b>	<b>(270,357,003)</b>	<b>888,456,401</b>
<b>Net book value</b>	<b>1,501,006,026</b>			<b>1,611,556,022</b>

(Fig. in LKR)

**Notes:** Bottles and crates stocks has been revalued during the year 2012. Assets pledge to obtain credit facilities from financial institutions are disclosed in note 15.1.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 9. INVESTMENT PROPERTY

	(Fig. in LKR)		
	<b>Balance as at 01.07.2016</b>	<b>Additions</b>	<b>Balance as at 31.12.2016</b>
Land	378,000,000	-	378,000,000
	<b>378,000,000</b>	<b>-</b>	<b>378,000,000</b>

## 10. INVENTORIES

	(Fig. in LKR)	
	<b>31.12.2016</b>	<b>31.12.2015</b>
Finished goods	85,151,071	69,885,802
Raw materials	298,294,322	174,745,046
Chemicals and fuel	12,251,242	12,534,939
Spare parts	26,881,501	50,650,805
Goods in transit	2,150,410	8,606,917
	<b>424,728,547</b>	<b>316,423,508</b>

## 11. TRADE AND OTHER RECEIVABLES

	(Fig. in LKR)	
	<b>31.12.2016</b>	<b>31.12.2015</b>
Trade debtors	811,607,951	454,133,113
Less: Impairment of trade debtors	(10,893,282)	(12,738,031)
	<b>800,714,669</b>	<b>441,395,082</b>
Bottle deposit	-	290,393,751
Other receivables	26,251,494	9,648,038
VAT		22,895,627
Receivable from CGIR-ESC & Advance tax payment	35,818,691	29,430,165
Staff loans and festival advances	1,091,704	720,814
	<b>863,876,558</b>	<b>794,483,479</b>

## 12. DEPOSITS AND PREPAYMENTS

	(Fig. in LKR)	
	<b>31.12.2016</b>	<b>31.12.2015</b>
Deposits and prepayments	37,481,071	18,373,348
	<b>37,481,071</b>	<b>18,373,348</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 13. STATED CAPITAL

		(Fig. in LKR)	
	No. of shares	31.12.2016	31.12.2015
Fully paid ordinary shares	126	1,260	1,260
Fully paid Class "A" ordinary shares	80,287,081	802,870,810	802,870,810
Fully paid redeemable preference shares	17,554,438	175,544,380	175,544,380
		<b>978,416,450</b>	<b>978,416,450</b>

## 14. DEPOSIT PAYABLES

		(Fig. in LKR)	
		31.12.2016	31.12.2015
Bottle deposit payable		327,829,072	314,146,769
Cash deposits from dealers		28,918,865	19,216,096
		<b>356,747,937</b>	<b>333,362,864</b>

## 15. BORROWINGS

		(Fig. in LKR)	
		31.12.2016	31.12.2015
<b>Long term loans</b>			
Sampath Bank		33,328,000	46,874,000
People's Bank		39,555,000	66,391,783
Hatton National Bank		83,300,000	-
Commercial Bank		75,915,550	99,152,350
		<b>232,098,550</b>	<b>212,418,133</b>
Short term portion payable within one year		79,795,800	63,664,583
Long term portion payable after one year		152,302,750	148,753,550

### 15.1 Securities Pledged for Long Term Loans

		(Fig. in LKR)	
		31.12.2016	31.12.2015
a) People's Bank	Mortgage over property at No. 140, Embulgama, Ranala.		
b) Sampath Bank	Loan Agreement for Rs. 50 Million and Corporate Guarantee from Varun Beverages Lanka (Private) Limited for Rs. 50 Million.		
c) Commercial Bank	Corporate Guarantee of Varun Beverages Lanka (Private) Limited for Rs. 100 Million.		
d) Hatton National Bank	Corporate Guarantee of Varun Beverages Lanka (Private) Limited for Rs. 100 Million.		

# Notes to the Financial Statements

For the year ended December 31, 2016

## 16. RETIREMENT BENEFIT OBLIGATIONS

	<b>31.12.2016</b>	<b>31.12.2015</b>
		(Fig. in LKR)
Balance at the beginning of the period	62,454,712	54,813,393
Gratuity charge for the period	2,653,869	3,439,385
Interest charge for the period	3,122,735	5,481,339
Payments made during the period	(5,191,443)	(904,389)
Actuarial (gain)/loss	(10,425,434)	(375,017)
Balance at the end of the period	<b>52,614,439</b>	<b>62,454,712</b>

The following assumptions were used in determining the post employment benefit obligation.

Expected future salary increment	13%	13%
Discount rate	13%	10%

## 17. SHORT TERM LOANS

	<b>31.12.2016</b>	<b>31.12.2015</b>
		(Fig. in LKR)
People's Bank	32,565,022	221,070,616
Hatton National Bank	146,560,000	156,675,621
Sampath Bank	43,300,000	32,837,598
National Development Bank	120,545,102	143,378,156
Orient Finance	-	85,864,981
Accor Industries (Private) Limited	-	181,077,829
Softlogic Finance	2,944,445	44,527,778
	<b>345,914,569</b>	<b>865,432,579</b>

### 17.1 Securities Pledged for Short Term Loans and Bank Overdrafts

#### Name of the bank and nature of the security

- |                              |  |
|------------------------------|--|
| a) Hatton National Bank      | Concurrent Mortgage over property at. No. 140, Low Level Road, Embulgama, Ranala for Rs. 367 million (People's Bank Rs. 197 million, HNB Rs. 170 million) on first pari passu basis.<br><br>First pari passu charge for Rs. 367 Million on the immovable plant & Machinery at No. 140, Low Level Road, Embulgame, Ranala (People's Bank - Rs. 197 million, HNB - Rs. 170 million). |
| b) People's Bank             | Documents of title of goods. Existing registered primary floating mortgage bond over stock and debtors for 100 Million at No. 140, Low Level Road, Embulgama, Ranala. Mortgage over property plant & machinery and empty bottles at No.140, Low Level Road, Embulgama, Ranala. Documents of titled of goods shipped, Indemnity of the Company.                                     |
| c) National Development Bank | Primary Mortgage stocks and book debts of Varun Beverages Lanka (Private) Limited and Ole Springs Bottlers (Private) Limited for Rs. 150 Million.  |
| d) Sampath Bank              | Short Term Import loan agreement for Rs. 50 million, Overdraft agreement for Rs. 100 million, Hypothecation Bond Over stock and book debts for Rs. 150 million and Corporate guarantee of Varun Beverages Lanka (Private) Limited for Rs. 150 million.   |
| f) Commercial Bank PLC       | Corporate guarantee of Varun Beverages Lanka (Private) Limited up to Rs. 25 million.   |
| g) Softlogic Finance         | Mortgage of Machinery worth of Rs. 90 million. Corporate Guarantee from Varun Beverages Lanka (Private) Limited.   |



# Notes to the Financial Statements

For the year ended December 31, 2016

## 18. TRADE AND OTHER PAYABLES

	(Fig. in LKR)	
	<b>31.12.2016</b>	<b>31.12.2015</b>
Trade payables	335,381,452	237,639,285
Stamp duty	65,600	65,750
Excise duty	119,276,752	90,071,540
ESC	5,269,266	-
VAT	9,767,726	-
Nation building tax	3,048,611	1,601,500
Accrued and other payables	267,382,726	120,263,283
	<b>740,192,134</b>	<b>449,641,359</b>

## 19. BANK OVERDRAFT

	(Fig. in LKR)	
	<b>31.12.2016</b>	<b>31.12.2015</b>
Bank overdraft	228,001,049	272,579,343

## 20. RELATED PARTY TRANSACTIONS

### 20.1 Identification of related parties

Related parties include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company.

During the year, Mr. Ravi Kant Jaipuria, Mr. Vishal Jain, Mr. Ajay Kumar Bhartia were the directors of the company during the year.

### 20.2 Balance outstanding as at December 31, 2016

Related party	(Fig. in LKR)			
	Amount due from related parties		Amount due to related parties	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Varun Beverages Lanka (Private) Limited		297,309,553	233,775,287	
Varun Beverages Limited	-	-	61,604,305	75,589,435
	(0.49)	297,309,552.7	295,379,591	75,589,435

### 20.3 During the period, the company entered into the following transactions with the related parties

	(Fig. in LKR)			
	Goods purchased		Other transactions	
	2016	2015	2016	2015
Varun Beverages Lanka (Private) Limited	451,257,560	386,260,128	223,636,672	(804,257,429)
Varun Beverages Limited	93,819,214	79,422,667	(107,804,344)	(53,312,119)
	<b>545,076,774</b>	<b>465,682,795</b>	<b>115,832,328</b>	<b>(857,569,548)</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 20.4 Remuneration to key management personnel

Key Management Personnel include members of the Board of Directors of the company and its related companies. There was no compensation paid to key management personnel during the period.

## 21. CAPITAL COMMITMENTS AND CONTINGENCIES

Director General of Customs has filed a case in the appeal court against the company imposing a penalty of Rs. 11,742,202/- on the preform material clearance and the trials are in progress.

Estimated amount of contracts remaining to be executed on capital account not provided for (net of advance) Rs. 103,861,114/.

Legal cases have been filed against the Company worth of Rs. 490,000/- for employee and product related matters.

The Department of Inland Revenue has issued an assessment for income tax filed for the year of assessment 2013/2014 of the amount of Rs. 9,550,038/- and the company has appealed against the assessment and settlement is still pending.

The Department of Inland Revenue has issued an assessments for VAT for the year 2013 (4 quarters) on its subsidiary Ole Springs Bottlers (Private) Limited of the amount of Rs. 412,010,752 and the company has appealed against the assessment and settlements.

Apart from the above, there were no significant contingent liabilities and capital commitments as at the reporting period end that would require adjustments to/or disclosure in the financial statements.

## 22. EVENTS AFTER THE REPORTING PERIOD END

There were no significant events after the reporting period date which require adjustments to or disclosure in the financial statements.

# Detailed Schedules to the Financial Statements

For the year ended December 31, 2016

	Year ended 31.12.2016	Year ended 31.12.2015
		(Fig. in LKR)
<b>1. REVENUE</b>		
Local sales	5,400,975,210	3,488,954,885
Export sales	6,941,954	7,892,563
	5,407,917,164	3,496,847,448
National building tax	(95,467,705)	(61,307,142)
Excise duty	(643,073,130)	(455,184,095)
	4,669,376,329	2,980,356,210

	Year ended 31.12.2016	Year ended 31.12.2015
		(Fig. in LKR)
<b>2. COST OF SALES</b>		
Finished goods at the beginning of the period	69,885,802	51,391,721
Finished goods purchased	210,490,318	350,464,265
Factory cost transferred (Note 2.1)	2,593,371,782	1,673,090,983
	2,873,747,902	2,074,946,969
Finished goods at the end of the period	(85,151,071)	(69,885,802)
	2,788,596,830	2,005,061,167

	Year ended 31.12.2016	Year ended 31.12.2015
		(Fig. in LKR)
<b>2.1 Cost of finished goods manufactured</b>		
Raw materials at the beginning of the period	174,745,046	148,548,377
Raw material purchases	2,120,032,995	1,299,992,106
Raw materials at the end of the year	(298,294,322)	(174,745,046)
Raw materials consumed	1,996,483,719	1,273,795,437
Production overheads (Note 2.2)	596,888,063	399,295,546
	2,593,371,782	1,673,090,983

	Year ended 31.12.2016	Year ended 31.12.2015
		(Fig. in LKR)
<b>2.2 Production overheads</b>		
Salaries	54,316,931	53,792,579
Wages	23,741,463	12,005,085
Overtime	41,753,209	20,008,324
Bonus	9,465,810	7,781,760
Allowance	827,150	300,800

# Detailed Schedules to the Financial Statements

For the year ended December 31, 2016

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
Employees' provident fund	6,518,032	6,455,110
Employees' trust fund	1,629,508	1,613,777
Staff welfare	5,059,018	6,557,994
Medical	362,309	768,772
Terminal gratuity	1,486,406	2,460,585
Fuel	49,982,910	36,517,797
Stores spares & chemicals	40,802,801	27,986,998
Breakages	25,388,302	18,505,067
Lab consumables	2,228,759	1,891,961
Technical service fee	100,609,384	-
Staff uniforms	1,858,122	1,543,150
Electricity	65,736,357	49,781,772
Telephone	507,550	378,335
General insurance	1,453,212	1,367,005
Security charges	11,735,330	10,022,092
Motor vehicle fuel	522,524	439,772
Depreciation		
Factory building	5,384,328	5,510,674
Plant and machinery	4,689,653	20,362,883
Office equipment	9,415	7,641
Furniture and fittings	323,436	321,841
Motor vehicles and forklift	253,041	235,176
Computers	262,089	219,969
Bottles and crates	79,696,937	86,995,701
Building repairs and maintenance	6,528,101	5,334,099
Equipment maintenance	53,647,995	19,769,879
Loading charges	107,980	358,945
	<b>596,888,063</b>	<b>399,295,546</b>

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
<b>3. ADMINISTRATIVE EXPENSES</b>		
Salaries-staff	11,742,310	8,293,894
Wages	4,744,826	663,779
Overtime	2,788,445	1,711,698
Staff training expenses	-	10,000
Allowance	796,756	289,763
Bonus	480,358	1,199,814
Employees' provident fund	463,111	513,570
Employees' trust fund	352,007	248,453

# Detailed Schedules to the Financial Statements

For the year ended December 31, 2016

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
Medical	353,518	268,806
Staff welfare	627,146	12,095
Staff recruitment expenses	8,000	-
Terminal gratuity	321,333	379,380
Tea & fooding	10,532,551	1,469,136
Compensation	237,636	235,915
External auditors' remuneration	1,050,260	767,750
Internal auditors' remuneration	1,317,594	-
Auditors expense reimburse	96,316	-
Rounding off		
Telephone	1,884,246	1,501,155
Printing and stationery	6,843,698	4,830,070
Postage and telegrams	717,351	339,875
Stamp duty	266,175	976,360
Depreciation - Building	1,005,690	1,029,289
- Furniture and fittings	173,123	172,269
- Office equipment	266,184	216,029
- Motor vehicle	506,301	470,556
- Computer	524,179	439,939
Computer maintenance	2,172,203	2,122,611
Rent	2,259,000	-
Fees and penalties	61,800	196,172
Motor vehicle insurance	91,658	435,664
Foreign travelling	3,744,579	9,199,606
Expenses for administrative service	43,200,000	43,200,000
Consultancy fee	4,060,342	2,675,354
Legal fee	572,700	1,150,550
ROC document fees	62,650	-
Subscriptions and periodicals	496,959	303,024
Motor vehicle maintenance and repairs	20,151,477	7,450,050
Motor vehicle fuel	2,314,727	166,770
Entertainment	29,060	93,100
Accounting charges	519,897	488,356
Water	43,358	-
Other tax	3,579,510	9,193,987
Donation	31,201	-
Tax in default	-	101,792
Travelling and transport	2,733,570	636,291
	<b>134,223,808</b>	<b>103,452,922</b>

# Detailed Schedules to the Financial Statements

For the year ended December 31, 2016

	(Fig. in LKR)	
	Year ended 31.12.2016	Year ended 31.12.2015
<b>4. SELLING AND DISTRIBUTION EXPENSES</b>		
Salaries-staff	30,919,643	13,104,348
Wages	43,254,553	29,659,629
Staff welfare	152,920	245,234
Allowance	4,290,619	6,844,429
Overtime	10,561,960	1,432,591
Bonus	2,691,988	1,895,706
Staff incentives	47,544,717	17,276,022
Employees' provident fund	1,140,984	739,905
Employees' trust fund	927,731	393,130
Security charges	1,308,077	-
Terminal gratuity	846,129	599,420
Computer maintenance	-	47,950
Medical	458,648	175,810
Printing and stationery	-	397,046
Motor vehicle fuel	12,400,154	11,876,979
Motor vehicle maintenance and repairs		
Tea & fooding	9,894,843	12,873,270
Discount and other selling expenses	825,823,017	464,005,010
Depot rent	5,935,640	2,986,640
Conferences and meetings expenses	485,256	268,302
Leakage breakage	31,988,472	23,702,714
Sundry written off	184,081	-
Provision for doubtful debts	-	10,875,464
Trade equipment hire charges	110,824,248	129,642,252
Trade equipment maintenance	17,603,281	4,234,285
Freight expenses	303,026	223,784
Electricity	1,048,895	565,842
Marketing equipment damage	1,289,228	-
Telephone	49,541	27,376
Travelling and transport	776,667	202,302
Transport charges	274,786,486	181,087,505
Loading charges	868,354	-
Contract outlet expenses	26,754,950	32,605,980
Depreciation-Trade equipment	11,525,891	2,710,058
	<b>1,476,639,999</b>	<b>950,698,981</b>

# Detailed Schedules to the Financial Statements

For the year ended December 31, 2016

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
<b>5. CASH AT BANK AND CASH IN HAND</b>		
<b>Cash at Bank</b>		
Hatton National Bank PLC Shipping Guarantee margin	1,068,000	895,089
People's Bank-International Shipping Guarantee margin	1,560,911	-
Hatton National Bank Wattala	609,620	-
People's Bank-Hanwella	46,206,803	-
National Development Bank-Colombo 02	5,319,160	-
People's Bank-International	9,194,322	-
Axis Bank	13,313	1,844,521
Standard Chartered Bank- Fort Branch 3	613,071	273,139
Saving Account-Sampath Bank PLC	4,168,461	26,271,436
	68,753,660	29,284,185
Cash in hand	892,000	392,000
	<b>69,645,660</b>	<b>29,676,185</b>

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
<b>6. BANK OVERDRAFTS</b>		
People's Bank-Hanwella	-	7,852,876
People's Bank-International	-	37,805,040
Hatton National Bank-Kaduwela	109,621,432	111,417,111
Sampath Bank-Colombo 02	96,235,007	90,246,238
National Development Bank-Colombo 02	-	1,012,711
Commercial Bank Ceylon	22,144,609	24,245,367
	<b>228,001,049</b>	<b>272,579,343</b>

# Detailed Schedules to the Financial Statements

For the year ended December 31, 2016

	(Fig. in LKR)	
	<b>Year ended 31.12.2016</b>	<b>Year ended 31.12.2015</b>
<b>7. ACCRUED AND OTHER PAYABLES</b>		
Electricity	4,638,242	3,421,099
Security	920,000	700,000
Interest	1,190,566	4,133,230
Accrued others	190,972,175	84,470,267
Auditor's remuneration	250,000	679,250
Bonus payable	-	712,096
Claim payable	58,358,986	15,993,263
Telephone payable	90,000	120,000
Field expense	-	3,600,000
Wages	-	1,425,000
Unclaimed wages	1,098,591	860,954
Tax fee	350,314	324,996
Staff incentive	9,513,853	3,823,127
	<b>267,382,726</b>	<b>120,263,283</b>





Zambia

# Report of the Directors

The directors submit their report and the audited interim financial statements for the year ended December 31, 2016, which disclose the state of affairs of the Company.

## PRINCIPAL ACTIVITIES

The Company manufactures and distributes carbonated soft drinks and bottled drinking water.

RESULTS	2016 ZMW	2015 ZMW
Profit/(loss) before tax	43,941,044	(70,720,397)
Tax (charge)	-	(14,000)
Profit/(loss) for the year	43,941,044	(70,734,397)

## DIVIDEND

The directors do not recommend the declaration of a dividend for the year.

## DIRECTORS

The directors who held office during the year and to the date of this report are shown below :

- Mr. Ravi Kant Jaipuria (Resigned on 31 March, 2016)
- Mr. Rajnish Gupta
- Mr. Shankar Krishnan Iyer
- Mr. Anup Channa (Resigned on 20 March, 2016)
- Mr. Satya Naryan Sharma (Appointed on 31 March, 2016)
- Mr. Amreek Singh (Appointed on 11 February, 2016)

## EXPORTS

During the year total exports amounted to ZMW 83,330,290 (2015: ZMW 69,406,088).

## INDEPENDENT AUDITOR

The Company's auditor PKF Zambia Chartered Accountants, has indicated willingness to continue in office in accordance with the Companies Act, 1994.

## OTHER

In accordance with Section 177 of the Companies Act, 1994 the board of directors also report that during the year :

- the Company purchased property, plant and equipment amounting to ZMW 30,058,525 (2015: ZMW 37,829,005)
- as at the reporting date, the carrying value of property, plant and equipment was not less than its recoverable amount.
- the Company values the importance of the safety of its employees. To this effect the Company has a safety code that all employees are required to adhere to.
- the total remuneration of employees during the year amounted to ZMW 38,079,746 (2015: ZMW 38,927,884) and as at the year end the number of employees was 455 (2015: 437)

## BY ORDER OF THE BOARD

### Amreek Singh

Director

### Lusaka

February 7, 2017

# Statement of Directors' Responsibilities

The Companies Act 1994 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company as at December 31, 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 1994.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on February 7, 2017 and signed on its behalf by:

**Amreek Singh**  
Director

**Rajnish Gupta**  
Director

# Report of the Independent Auditor

## To the members of Varun Beverages (Zambia) Limited

### Opinion

We have audited the financial statements of Varun Beverages (Zambia) Limited (the company) set out on pages ahead, which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS)/ the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the Zambian Companies Act, 1994.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zambia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

The directors are responsible for the other information. The other information comprises the directors' report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS for SMEs and the requirements of the Zambian Companies Act, 1994, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the director either intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Report of the Independent Auditor

## To the members of Varun Beverages (Zambia) Limited

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related disclosures made by the directors.
- Conclude on the appropriateness of director's use of going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cause significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit's report. However, future events or conditions may cause the company to cease to continue as going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on Other Legal and Regulatory Requirements

As required by the Zambian Companies Act, 1994 we report to you, based on our audit, that:

- I) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- II) In our opinion proper books of account have been kept by the company, so far as it appears from our examination from our books; and
- III) The company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

### PKF Zambia

Chartered Accountants

February 7, 2017

Lusaka

The engagement partner responsible for the audit resulting in this independent auditor's report is Steven Chibwe - P/No. AUD/F000370.

AR/LSK/006/17

**Steve Chibwe**

# Statement of Profit or Loss and Retained Earnings

For the year ended December 31, 2016

	Notes	2016 ZMW	2015 ZMW
Revenue	3	325,114,701	280,559,932
Cost of sales	5	(145,429,906)	(130,751,390)
<b>Gross profit</b>		<b>179,684,795</b>	<b>149,808,542</b>
Other operating income	4	-	140,000
Administrative expenses	6.3	(16,906,112)	(15,495,214)
Selling and distribution expenses	6.4	(41,358,145)	(42,132,628)
Employment costs	6.2	(38,079,746)	(38,927,884)
Depreciation on property, plant and equipment	6.1	(23,162,478)	(23,603,203)
<b>Operating profit</b>		<b>60,178,314</b>	<b>29,789,613</b>
Finance costs	7	(16,237,270)	(100,510,010)
<b>Profit/(loss) before tax</b>		<b>43,941,044</b>	<b>(70,720,397)</b>
Tax charge	8	-	(14,000)
<b>Profit/(loss) for the year</b>		<b>43,941,044</b>	<b>(70,734,397)</b>
<b>Accumulated losses</b>			
At start of year		(99,120,508)	(6,295,301)
- as previously stated			
<b>Prior year adjustment</b>			
- being correction of prior year errors	12	-	(22,090,810)
		(99,120,508)	(28,386,111)
Profit/(loss) for the year		43,941,044	(70,734,397)
At end of year		(55,179,464)	(99,120,508)

The notes on pages ahead form an integral part of these financial statements.

Report of the independent auditor - back pages.

# Statement of Financial Position

For the year ended December 31, 2016

	Notes	As at 31 December	
		2016 ZMW	2015 ZMW
<b>Non-current assets</b>			
Property, plant and equipment	13	178,880,863	176,710,396
Investment in subsidiaries	14	-	10,924
		<u>178,880,863</u>	<u>176,721,320</u>
<b>Current assets</b>			
Inventories	15	39,660,963	26,931,880
Trade and other receivables	16	69,408,737	89,214,274
Cash and cash equivalents	17	1,534,687	6,940,153
		<u>110,604,387</u>	<u>123,086,307</u>
		<u>289,485,250</u>	<u>299,807,627</u>
<b>EQUITY</b>			
Share capital	9	500,000	500,000
Accumulated losses		(55,179,464)	(99,120,508)
<b>Equity attributable to owners of the company</b>		<u>(54,679,464)</u>	<u>(98,620,508)</u>
<b>Non-current liabilities</b>			
Trade and other payables	10	61,991,595	78,643,020
Borrowings	11	122,825,548	126,700,528
		<u>184,817,143</u>	<u>205,343,548</u>
<b>Current liabilities</b>			
Trade and other payables	10	94,969,458	122,686,829
Borrowings	11	64,378,113	70,383,758
Current tax payable	8	-	14,000
		<u>159,347,571</u>	<u>193,084,587</u>
Net current liabilities		<u>(48,743,183)</u>	<u>(69,998,280)</u>
		<u>289,485,250</u>	<u>299,807,627</u>

The financial statements on pages ahead were approved and authorised for issue by the board of Directors on February 7, 2017 and were signed on its behalf by:

**Amreek Singh**  
Director

**Rajnish Gupta**  
Director

The notes on pages ahead form an integral part of these financial statements.

Report of the independent auditor - back pages.

# Statement of Cash Flows

For the year ended December 31, 2016

	Notes	2016 ZMW	2015 ZMW
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax		43,941,044	(70,734,397)
<b>Adjustments for:</b>			
Depreciation on property, plant and equipment	13	23,162,478	23,603,203
Interest expense	7	12,895,811	17,643,278
Prior period adjustment	12	-	(22,090,810)
Foreign exchange (gains)/losses	7	(11,988,574)	82,866,732
Net cash from operations before working capital change		68,010,759	31,288,006
Changes in working capital:			
- inventories		(12,729,084)	8,419,171
- trade and other receivables		19,805,537	(19,793,533)
- trade and other payables		(44,382,796)	67,212,334
Interest paid	7	(12,895,811)	(17,643,278)
Net cash from operating activities after working capital change		<b>17,808,606</b>	<b>69,482,701</b>
<b>Cash flows from investing activities</b>			
Cash paid for purchase of property, plant and equipment	13	(30,058,525)	(37,829,005)
Proceeds from disposal of investment		10,924	61,356
Proceeds from disposal of property, plant and equipment		4,725,580	177,769
Net cash used in investing activities		<b>(25,322,020)</b>	<b>(37,589,880)</b>
<b>Cash flows from financing activities</b>			
Movements in borrowings		(12,074,265)	37,578,911
Effect of exchange rate changes	7	11,988,574	(82,866,732)
Net cash from financing activities		<b>(85,691)</b>	<b>(45,287,822)</b>
<b>Movement in cash and cash equivalents</b>			
At start of period		(37,657,972)	(24,262,971)
At end of period	17	<b>(45,257,078)</b>	<b>(37,657,972)</b>

The notes on pages ahead form an integral part of these financial statements.

Report of the independent auditor - back pages.



# Notes to the Financial Statements

For the year ended December 31, 2016

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 1) GENERAL INFORMATION

The Company manufactures and distributes carbonated soft drinks and bottled drinking water.

Plot No. 37426 Mungwi Road  
Heavy Industrial Area  
P.O. Box 30007  
Lusaka  
Zambia

## 2) SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of preparation

The financial statements of Varun Beverages (Zambia) Limited have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the financial statements, are disclosed in note 2 (b).

These financial statements comply with the requirements of the Companies Act 1994. The statement of profit or loss and retained earnings represents the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

### Going concern

The financial performance of the Company is set out in the report of the directors and in the statement of profit or loss and retained earnings. The financial position of the Company is set out in the statement of financial position.

Based on the financial performance and position of the Company and its risk management policies, the directors are of the opinion that the Company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

### b) Key sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed as follows.

- **Useful lives of property, plant and equipment**—Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

# Notes to the Financial Statements

For the year ended December 31, 2016

The directors have made the following judgements that are considered to have the most significant effect on the amounts recognized in the financial statements:

**Revenue recognition**-In making their judgement, the directors considered the detailed criteria for the recognition of revenue from the sale of goods set out in Section 23 of the IFRS for SMEs and, in particular:

- i) whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.
- ii) whether the rental income is accrued by reference to time on a straight line basis over the lease term.

## c) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of sales value-added tax, returns, rebates and discounts.

The Company recognizes revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Company's activities.

- i) Sales of goods are recognized upon delivery of products and customer acceptance
- ii) Rental income is accrued by reference to time on a straight line basis over the lease term

## d) Property, plant and equipment

All property, plant and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on straight line method to write down the cost of each asset, to its residual value, over its estimated useful life using the following annual rates:

	<b>Rate (Life)</b>
Land	Over the lease period
Buildings	50 years
Plant and machinery	20 years
Motor vehicles	4 years
Furniture and fittings	5 years
IT equipment	3 years
Computer equipment	3 years
Visi-cooler	7 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

# Notes to the Financial Statements

For the year ended December 31, 2016

**d) Property, plant and equipment (continued)**

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit/loss.

**e) Trade and other receivables**

Trade receivables are initially recognized at the transaction price. They are subsequently measured at amortized cost using the effective interest method.

At the end of each reporting period, the carrying amounts of trade receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

**f) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts.

In the statement of financial position, bank overdrafts are included within borrowings in current liabilities.

**g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the "moving weighted average cost method". The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

**h) Borrowings**

Borrowings are recognized initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortized cost. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**i) Borrowing costs**

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

**j) Trade payables**

Trade payables are recognised initially at the transaction price. They are obligations on the basis of normal credit terms and do not bear interest.

# Notes to the Financial Statements

For the year ended December 31, 2016

Trade payables denominated in a foreign currency are translated into the functional currency using the exchange rate at the reporting date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

**k) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Zambian Kwacha at rates ruling at the transaction dates. Assets and liabilities at the statement of financial position date which are expressed in foreign currencies are translated into Zambian Kwacha at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

**l) Leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Company leases certain items of property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of finance charges, are included in borrowings in the statement of financial position. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**m) Employee benefit obligations**

**Gratuity**

Employee entitlements to gratuity are recognized when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date.

**Pension obligations**

The Company and its employees contribute to the National Pension Scheme Authority (NAPSA), a statutory defined contribution scheme registered under the NAPSA Act. The Company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate. There are no further payment obligations once the contributions have been paid.

**Accrued leave**

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

**n) Investment in subsidiary**

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

# Notes to the Financial Statements

For the year ended December 31, 2016

The purchase method of accounting is used to account for the acquisition of a subsidiary by the Company. The cost of an acquisition is measured at the fair value of consideration given (i.e. the fair values of assets given, equity instruments issued and liabilities incurred or assumed, plus costs that can directly be attributed to the acquisition) at the date of exchange. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. Goodwill generated on the acquisition of a subsidiary is subject to annual impairment review. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference (negative goodwill) is recognized directly in profit or loss.

The investment in the subsidiary is shown at cost and provision is only made where, in the opinion of the directors, there is a permanent diminution in the value. Where there has been a permanent diminution in value, it is recognized as an expense in the period in which the diminution is identified.

**o) Impairment of assets**

At each reporting date, property, plant and equipment and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**p) Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss.

**Current tax**

Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

**q) Share capital**

Ordinary shares are classified as equity.

**r) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 3 REVENUE

	<b>2016</b>	<b>2015</b>
	<b>ZMW</b>	<b>ZMW</b>
Carbonated soft drinks	301,755,568	273,763,654
Bottled drinking water	27,319,811	23,881,283
Other sales-Trading	92,362	169,476
Scrap sales	199,983	172,383
Sale of raw material	360,967	-
Excess provision w/back	15,330,033	-
Trade discount	(19,944,022)	(17,426,863)
	<b>325,114,701</b>	<b>280,559,932</b>

## 4. OTHER OPERATING INCOME

	<b>2016</b>	<b>2015</b>
	<b>ZMW</b>	<b>ZMW</b>
Other income-Rent received	-	140,000
	-	140,000

## 5. COST OF SALES

	<b>2016</b>	<b>2015</b>
	<b>ZMW</b>	<b>ZMW</b>
Consumption of raw materials	145,429,906	130,751,390
	<b>145,429,906</b>	<b>130,751,390</b>

## 6. OPERATING PROFIT

The following items have been charged arriving at the Operating Profit

### 6.1 Depreciation

	<b>2016</b>	<b>2015</b>
	<b>ZMW</b>	<b>ZMW</b>
Depreciation	23,162,478	23,603,203

# Notes to the Financial Statements

For the year ended December 31, 2016

## 6.2 Staff costs

	2016 ZMW	2015 ZMW
Salaries and wages	38,079,746	38,927,884

## 6.3 Administrative expenses

	2016 ZMW	2015 ZMW
	16,906,112	15,495,214

## 6.4 Selling and distribution expenses

	2016 ZMW	2015 ZMW
	41,358,145	42,132,628

## 7. FINANCE COSTS/ (INCOME)

	2016 ZMW	2015 ZMW
Net foreign exchange losses/(gains)	(11,988,574)	82,866,732
Interest expense:		
- bank borrowings	25,980,974	11,107,318
- others	2,244,870	6,535,960
	16,237,270	100,510,010

## 8. TAX

	2016 ZMW	2015 ZMW
Current tax	-	14,000
	-	14,000

## 9. SHARE CAPITAL

	2016 ZMW	2015 ZMW
<b>Authorised, issued and fully paid</b>		
50,000 (2015: 50,000) Ordinary shares of ZMW.10 each	500,000	500,000

# Notes to the Financial Statements

For the year ended December 31, 2016

## 10. TRADE AND OTHER PAYABLES

	2016 ZMW	2015 ZMW
<b>Non-current</b>		
Deferred VAT	30,849,735	41,499,335
Deferred excise duty	25,256	8,290,008
Security deposits	31,116,604	26,642,340
	<u>61,991,595</u>	<u>76,431,683</u>
<b>Current</b>		
Trade payables	46,494,507	51,860,709
Deferred excise duty	8,264,753	4,851,710
Deferred VAT	10,204,532	6,002,578
Amounts due to related parties (Note 18)	8,437,988	22,141,288
Other payables and accruals	21,567,678	37,830,544
	<u>94,969,458</u>	<u>122,686,829</u>
<b>Total trade and other payables</b>	<u>156,961,053</u>	<u>199,118,512</u>

## 11. BORROWINGS

	2016 ZMW	2015 ZMW
<b>Non-current</b>		
Finance leases	810,401	2,441,235
Bank borrowings	18,944,923	44,196,739
	<u>19,755,325</u>	<u>46,637,974</u>
<b>Unsecured loans</b>		
Africa Bottling Company Limited	2,976,240	3,297,180
Arctic International Private Limited	-	30,549,901
Capital Infrastructure	40,625,676	45,006,507
Varun Beverages Limited	58,377,019	-
Rajnish Gupta	1,091,288	1,208,966
	<u>103,070,223</u>	<u>80,062,554</u>
	<u>122,825,548</u>	<u>126,700,528</u>

The unsecured loans are interest free and have no specific repayment terms except loan from Varun Beverages Limited which is repayable as per the terms of the respective agreement and the loan carries interest rate of Libor plus 4%



# Notes to the Financial Statements

For the year ended December 31, 2016

	2016 ZMW	2015 ZMW
<b>Borrowings</b>		
<b>Current</b>		
Finance leases	1,635,041	1,910,777
Bank borrowings	9,490,620	23,874,856
Bank overdraft	46,791,764	44,598,125
Unsecured loans	6,460,687	-
	<b>64,378,112</b>	<b>70,383,758</b>
Non current liability	122,825,548	126,700,528
Current liability	64,378,112	70,383,758
<b>Total borrowings</b>	<b>187,203,660</b>	<b>197,084,285</b>
<b>Present value of minimum lease payments</b>		
Non-current liabilities	810,401	2,441,235
Current liabilities	1,635,041	1,910,777
	<b>2,445,442</b>	<b>4,352,012</b>

## 12 PRIOR PERIOD ERRORS

	2016 ZMW	2015 ZMW
i) Advertisement expenses	-	1,583,206
ii) Plant maintenance charges	-	5,002,330
iii) Additional Excise Duty	-	6,711,201
iv) Interest on Deferred Excise Duty	-	8,004,006
v) Interest on Deferred VAT	-	790,067
	-	22,090,810

## 13 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings ZMW Straight line	Plant and machinery ZMW Straight line	Motor vehicles ZMW Straight line	Furniture and fittings ZMW Straight line	Total ZMW
<b>Cost</b>					
At start of year	33,651,997	199,152,691	18,940,942	1,463,923	253,209,553
Additions	868,998	23,357,919	5,813,475	18,133	30,058,525
Disposals	-	(9,356,719)	(728,029)	-	(10,084,748)
At end of year	34,520,995	213,153,891	24,026,388	1,482,056	273,183,330
<b>Depreciation</b>					

# Notes to the Financial Statements

For the year ended December 31, 2016

	Land and buildings ZMW Straight line	Plant and machinery ZMW Straight line	Motor vehicles ZMW Straight line	Furniture and fittings ZMW Straight line	Total ZMW
At start of year	3,168,900	62,456,253	9,928,487	945,517	76,499,157
Disposals	-	(5,006,699)	(352,469)	-	(5,359,168)
Charge for the year	625,040	18,548,530	3,792,008	196,899	23,162,478
At end of year	3,793,939	75,998,085	13,368,026	1,142,417	94,302,467
<b>As at December 31, 2016</b>	<b>30,727,056</b>	<b>137,155,806</b>	<b>10,658,362</b>	<b>339,639</b>	<b>178,880,863</b>
<b>As at December 31, 2015</b>	<b>30,483,097</b>	<b>136,696,438</b>	<b>9,012,455</b>	<b>518,406</b>	<b>176,710,396</b>

## 14. INVESTMENT IN SUBSIDIARIES

	Principle activity	% of shares owned		2016 ZMW	2015 ZMW
		2016 %	2015 %		
Varun Beverages (Zimbabwe)(Private) Limited	Manufacturing	0%	85%	-	934
Varun Food and Beverages (Zambia) Limited	Manufacturing	0%	99%	-	9,990
				-	10,924

## 15. INVENTORIES

	2016 ZMW	2015 ZMW
Finished goods	4,646,508	2,536,534
Consumables and advertising materials	6,472,466	7,056,719
Raw materials	28,541,990	17,338,626
	<b>39,660,964</b>	<b>26,931,880</b>

## 16. TRADE AND OTHER RECEIVABLES

	2016 ZMW	2015 ZMW
Trade receivables	16,152,064	24,555,683
Less: provision for impairment	(2,452,556)	(2,211,337)
Net trade receivables	13,699,508	22,344,346
Prepayments and other receivables	9,208,742	14,863,197
Amounts due from related parties (Note 18)	46,500,488	45,372,721
	<b>69,408,737</b>	<b>82,580,263</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 17. CASH AND CASH EQUIVALENTS

	2016 ZMW	2015 ZMW
Cash and bank balances	1,534,687	6,940,153

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise the following:

	2016 ZMW	2015 ZMW
Cash and bank balances	1,534,687	6,940,153
Bank overdraft (Note 11)	(46,791,764)	(44,598,125)
	(45,257,078)	(37,657,972)

1. The Company has the following facilities with Zambia National Commercial Bank Plc.
  - i). Term loan of US\$ 7,500,000 (originally US\$12,000,000). Interest 33% Bank of Zambia policy rate (currently 15.5% plus 17.5%) has been repaid in full during the year 2016.
  - ii). Overdraft limit of ZMW 34,221,000. Interest 33% at Bank of Zambia policy rate (currently 15.5% plus 17.5%).

### Security

- i). First legal mortgage securing the sum of US\$15 million plus interest over the beverage factory at Stand No. 37426, Mungwi Road Lusaka in the name of Varun Beverages (Zambia) Limited valued at US\$ 37,372,748. Charge over Stand No. 37426 Lusaka where the secure the sum of US Dollar 15 million plus interest
  - ii). Further charge for US\$ 2.0 million and ZMW 3.0 million on stand No. 37426 Mungwi Road, Lusaka.
  - iii). Fixed and Floating Debenture over all Company assets including, but not limited to stock, debtors, motor vehicles, plant, equipment and machinery to secure the sum of US\$ 15.0 million plus interest.
  - iv). Loan Subordination Agreement for the loans from related companies.
  - v). Personal Guarantee (under Indian Law) from Mr Ravi Kant Jaipuria (Group Chairman) to secure the sum US Dollars 15 million plus interest.
  - vi). Letter of undertaking from the major shareholders, committing to fund any cash flow deficit to cover borrower's operation and loan repayments plus interest to the bank.
2. The Company has a term loan with Barclays Bank Zambia Plc. amounting to ZMW13,100,000. The loan is repayable in 48 instalments of ZMW 272,916.66 payable monthly commencing 1 months after the first draw down of the facility. The interest on term loan is 39%.

### Security

- i). Mortgage over property Number 37426-Lusaka, amounting to ZMW 13,100,000
- ii). Personal guarantee for ZMW 13,100,000 signed by Mr. Ravi Kant Jaipuria.

# Notes to the Financial Statements

For the year ended December 31, 2016

- iii) Fixed and floating debenture in the bank's standard form covering all plant and machinery registered to cover ZMW 13,100,000 to rank pari passu with Zanaco Bank Plc.

3. The Company has the following facilities with Indo Zambia Bank

- i). Overdraft limit of ZMW 12 million. Interest is at 33.75%
- ii). Term loan of 19,800,000 Interest is at 33.75%

## Security

- i) Fixed and floating debenture over all Company assets including but not limited to plant, machinery, inventories, receivables to be shared on pari passu basis with ZANACO.
- ii). Legal mortgage over Factory premises situated at Stand No.37426, Mungwi Road Lusaka to be shared on pari passu basis with Zambia National Commercial Bank (ZANACO).
- iii) Loan subordination agreement for loans from group/parent companies
- iv). Personal Guarantee (under Indian Law) from Mr Ravi Kant Jaipuria (Group Chairman)
- v). Letter of undertaking from the major shareholders, committing to fund any cash flow deficit to cover Company's operations and loan repayments plus interest to the bank.

4. The Company has the following facilities with Access Bank (Zambia) Limited

- i). Term loan of ZMW 4,517,812
- ii). Tenor of the loan is 3 years

## Security

- i). Security charged on trucks namely:
  - Original White Book Vehicle Reg No.BCA 4704
  - Original White Book Vehicle Reg No.BCA 4676
  - Original White Book Vehicle Reg No.BCA 4674
  - Original White Book Vehicle Reg No.BCA 4675
  - Original White Book Vehicle Reg No.BCA 7907

# Notes to the Financial Statements

For the year ended December 31, 2016

## 18. RELATED PARTY TRANSACTIONS AND BALANCES

The Company is controlled by Varun Beverages Limited, which owns 60% of the Company's shares. The remaining 40% of the shares are held by Africa Bottling Company Limited, Rajnish Gupta and Multi Treasure Limited.

The following transactions were carried out with related parties:

	2016 ZMW	2015 ZMW
<b>i) Sale of goods and services</b>		
- Subsidiary	-	2,244,590
- Other related parties	61,582,728	14,771,395
	<u>61,582,728</u>	<u>17,015,985</u>
<b>ii) Purchase of goods and services</b>		
- Parent	(13,160,997)	-
- Other related parties	(3,584,797)	(5,409,284)
	<u>(16,745,794)</u>	<u>(5,409,284)</u>
<b>iii) Receivable from related parties (Note 16)</b>		
- Subsidiary	-	26,723,085
- Other related parties	46,500,488	18,649,635
	<u>46,500,488</u>	<u>45,372,721</u>
<b>iv) Payable to related parties (Note 10)</b>		
- Parent	(6,720,650)	-
- Other related parties	(1,717,338)	(22,141,288)
	<u>(8,437,988)</u>	<u>(22,141,288)</u>

## 19 DEFERRED VAT

The deferred VAT outstanding during the year was ZMW 41,054,267 (2015:ZMW 47,501,913). The repayment instalment started in October 2015 and will be spread over five years.

## 20 DEFERRED EXCISE DUTY

The deferred excise duty outstanding during the year was ZMW 8,290,009 (2015:ZMW 13,141,718). The repayment instalment started in October 2015 and will be spread over five years.

## 21 SECURITY DEPOSITS

Security deposits of ZMW 33,569,161 (2015: ZMW 28,853,677). These amounts relate to deposits paid by distributors for empty containers and surety.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 22 CURRENT TAX PAYABLE (RECEIVABLE)

The Company under the tax incentives provided for under the Zambia Development Act 11 of 2006 (ZDA/146/03/2009), is exempt from income tax in the first five years commencing from the first year when profits are returned.

The profits earned in the following three years i.e. from year six to year eight will be taxed at 50% of the respective tax applicable.

The income earned in year nine and ten will be taxed at the 75% of respective tax rate applicable. Thereafter the normal rate of tax will apply.

As the result of the above no deferred tax has been recognized in these accounts.

## 23 CONTINGENT LIABILITIES

The company has received demand notice from the Zambia Revenue Authority who are demanding penalties for Additional Excise Duty and Paye (Pay as you earn) amounting to ZMW 5,377,511. These penalties have not been accrued in the financial statements as company has Appealed against the assessment.

## 24 EVENTS AFTER THE END OF THE REPORTING DATE

There were no events after the reporting date that requires disclosure or adjustment to these financial statements.

## 25 PRESENTATION CURRENCY

The financial statements are presented in Zambian Kwacha.



Morocco

# Management Report on the Operations

## For the year ended 31.12.2016

Ladies and Gentlemen,

We have assembled you in General Meeting in accordance with the law and statutes of our society for the purpose to present you our management report and ask you to approve the accounts for the year ended on 31/12/2016.

We remind you that the invitations to this meeting you have been properly submitted, and all documents required by the law, which were also made available to you at the registered office within the time fixed by this article.

The financial statements presented to you have been prepared in accordance with the rules of presentation and evaluation methods prescribed by regulations.

### I. ACTIVITY OF THE COMPANY

The result, after deduction of all charges, is a net loss of 63,222,014.04 MAD

### II. BALANCE SHEET

The total balance is 512,152,016.96 MAD, detailed as follows:

Equity amounted to 30,520,021.45 MAD. The debts of the current liabilities on the other hand amounted to 117,627,463.86 MAD.

Fixed assets consist of:

Capital write-offs amounting to 49,921,881.30 MAD.

Fixed assets amounting to 523,450,507.04 MAD.

Receivables in current assets include the state amounting to 78,388,583.49 MAD.

Cash this in turn contains a balance of 3,218,643.40 MAD

(Fig. in MAD)

	A Amount of trade receivables at the end A=B+C+D+E+F	B Amount of unexpired claims	Amount of outstanding claims			F Outstanding claims more than 90 days
			C Outstanding claims less than 30 days	D claims due between 31 and 60 days	E claims due between 61 and 90 days	
Closing date year N-1	67 945 216.36	38 161 881.76	701 691.43	5 584 812.89	361 143.62	23 135 686.66
Closing date year N	67 564 135.77	9 237 124.40	17 799 779.49	4 352 023.39	9 095 611.43	27 079 597.06
Closing date year N-1	82 572 358.41	31 958 111.75	8 902 023.16	15 430 333.48	10 518 828.80	15 763 061.22
Closing date year N	67 285 810.24	25 664 837.4	15 587 673.9	8 196 791.39	6 575 242.00	11 261 265.5

### III. FUTURE TREND AND OUTLOOK

The company will continue operations during 2017.

### IV. PRESENTATION OF THE ANNUAL ACCOUNTS AND APPROPRIATION OF PROFIT

We present the annual accounts for the year ended on 31/12/2016 and the assessment of their key positions.

- 1) Balance sheet: The main balance sheet items listed below in the appendix.
- 2) Statement of income and expenses: The statement of income and expenses for the year is reproduced below in the appendix.
- 3) Result-assignment: the year ended on 31/12/2016 revealed a net loss of 63,222,014.04 MAD, we propose to carry forward.

The Board of Directors

**Rajendra Kumar Dubey**  
Director



# General Report of Audit

For the year ended 31 December 2016

Shareholders,

Accordance with the terms of our accord by your General Meeting, we audited the financial statements of the company **VARUN BEVERAGES MOROCCO S A** attached, which comprise the balance sheet, statement of income and expenses, the state management balances, the cash flow statement and statement of additional information (ETIC) for the year ended 31 December 2016. These financial statements show a amount of equity to 30.520.021,45 MAD and include a loss of -63.222.014,04 MAD.

## MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these states synthesis, in accordance with accepted accounting standards in Morocco. This responsibility includes, implementing and maintaining internal control relevant to the preparation and presentation of summary statements having no abnormality significant, and the accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the standards in Morocco. These standards require us to comply with ethical requirements, plan and realize the audit to obtain reasonable assurance whether the financial statements do not contain material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the summary statements. The choice of procedures depend on the judgment of the listener, as well as risk assessment that states synthetic material misstatement. In making those risk assessments, the auditor considers internal control relevant to the entity on the compilation and presentation of summary statements to define procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of it.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the summary statements. We believe that the audit evidence obtained is sufficient and appropriate to our opinion.

## OPINION ON THE FINANCIAL STATEMENTS

1. The company VBM has a loan from the parent company. Due to fluctuation of the USD/MAD exchange rate at 31/12/2016, the company had to book a reserve representing the risk of exchange loss, which was not done.

Except for the impact of the situation described in paragraph 1, we certify that the statements referred to in the first paragraph above are regular and sincere and fairly, in all material respects, fairly the result of operations for the year then ended, the financial position and assets of the company **VARUN BEVERAGES MOROCCO S A** at 31 December 2016 in accordance with accounting standards admitted in Morocco.

Without qualifying our opinion above, we inform you that the annual accounts show a net situation lower than the quarter of the share capital. However, the financial statements attached were prepared on a continued activity and do not include any adjustments that may be required if the company were to cease its activity.

## SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by law and we ensured including the consistency of the information given in the management report to shareholders with the financial statements of the company.

**Ahmed CHAHBI**

Casablanca January 30, 2017

# Balance Sheet

From 01/01/2016 to 31/12/2016

ASSETS	(Fig. in MAD)			PREVIOUS YEAR
	YEAR			
	Gross	Depreciations and provisions	Net	
<b>PROPERTY VALUE IN NO (A)</b>	<b>49 921 881,30</b>	<b>45 376 285,87</b>	<b>4 545 595,43</b>	<b>9 953 456,21</b>
• preliminary expenses	41 202,00	41 202,00	-	-
• Accrued Deferred	49 880 679,30	45 335 083,87	4 545 595,43	9 953 456,21
• Bond redemption premiums	-	-	-	-
<b>INTANGIBLE ASSETS (B)</b>	<b>1 498 413,46</b>	<b>1 471 798,75</b>	<b>26 614,71</b>	<b>135 203,32</b>
• Capital Research & Development	-	-	-	-
• Patents, trademarks, rights, and similar	1 498 413,46	1 471 798,75	26 614,71	135 203,32
• goodwill	-	-	-	-
• Other intangible assets	-	-	-	-
<b>PROPERTY &amp; EQUIPMENT (C)</b>	<b>523 450 507,04</b>	<b>159 221 866,32</b>	<b>364 228 640,72</b>	<b>355 759 560,60</b>
• grounds	53 561 350,00	-	53 561 350,00	53 561 350,00
• constructions	39 414 523,60	11 650 873,56	27 763 650,04	29 096 352,00
• Plant, machinery and equipment	409 976 326,77	134 462 279,74	275 514 047,03	269 460 284,38
• transportation Equipment	14 663 191,26	9 697 774,75	4 965 416,51	1 383 918,26
• Furniture, office equipment & facilities	5 835 115,41	3 410 938,28	2 424 177,13	2 257 655,96
• Other tangible assets	-	-	-	-
• Assets under construction	-	-	-	-
<b>FINANCIAL ASSETS (D)</b>	<b>1 808 460,62</b>	<b>-</b>	<b>1 808 460,62</b>	<b>1 610 120,62</b>
• term loans	-	-	-	-
• Other financial receivables	1 808 460,62	-	1 808 460,62	1 610 120,62
• Equity securities	-	-	-	-
• Other investments	-	-	-	-
<b>EXCHANGE EVALUATION ADJUSTMENTS - ASSETS (E)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
• Decrease in nonperforming loans	-	-	-	-
• Increase in borrowings	-	-	-	-
<b>TOTAL I (A+B+C+D+E)</b>	<b>576 679 262,42</b>	<b>206 069 950,94</b>	<b>370 609 311,48</b>	<b>367 458 340,75</b>

# Balance Sheet

From 01/01/2016 to 31/12/2016

(Fig. in MAD)

ASSETS	YEAR			PREVIOUS YEAR
	Gross	Depreciations and provisions	Net	Net
<b>STOCKS (F)</b>	<b>62 612 334,84</b>	-	<b>62 612 334,84</b>	<b>56 700 571,91</b>
• goods	8 876 543,50	-	8 876 543,50	-
• Consumable materials and supplies	35 096 086,53	-	35 096 086,53	46 611 549,91
• Work in progress	-	-	-	-
• Intermediate products and residual products	-	-	-	-
• finished goods	18 639 704,81	-	18 639 704,81	10 089 022,00
<b>CURRENT ASSETS (G)</b>	<b>78 388 583,49</b>	<b>2 800 895,75</b>	<b>75 587 687,74</b>	<b>76 383 790,08</b>
• Supplier receivables, advances	-	-	-	31 600,00
• Accounts receivable	67 564 135,77	2 800 895,75	64 763 240,02	65 144 320,61
• staff	755 965,07	-	755 965,07	384 736,05
• State	9 290 224,84	-	9 290 224,84	10 785 343,94
• Accounts associated	-	-	-	-
• other receivables	37 789,48	-	37 789,48	37 789,48
• Accrued Assets	740 468,33	-	740 468,33	-
<b>SECURITIES AND INVESTMENT SECURITIES (H)</b>	-	-	-	-
• SECURITIES AND INVESTMENT SECURITIES (H)	-	-	-	-
<b>TRANSLATION ADJUSTMENTS - ASSETS (I)</b>	<b>124 039,50</b>	-	<b>124 039,50</b>	<b>642 617,03</b>
(Circulating items)	124 039,50	-	124 039,50	642 617,03
<b>TOTAL II(F+G+H+I)</b>	<b>141 124 957,83</b>	<b>2 800 895,75</b>	<b>138 324 062,08</b>	<b>133 726 979,02</b>
<b>CASH - ASSETS</b>				
• Checks and cash values ...	2 590 504,03	-	2 590 504,03	1 383 441,60
• Bank T.G. and C.C.P.	602 903,81	-	602 903,81	945 341,91
• Cash, Imprest and flow-	25 235,56	-	25 235,56	61 330,72
<b>TOTAL III</b>	<b>3 218 643,40</b>	-	<b>3 218 643,40</b>	<b>2 390 114,23</b>
<b>TOTAL GENERAL I + II + III</b>	<b>721 022 863,65</b>	<b>208 870 846,69</b>	<b>512 152 016,96</b>	<b>503 575 434,00</b>

# Balance Sheet

From 01/01/2016 to 31/12/2016

LIABILITIES	(Fig. in MAD)	
	YEAR	PREVIOUS YEAR
<b>EQUITY</b>		
• Capital or personnel (1)	374 000 000,00	294 000 000,00
• fewer shareholders, subscribed capital uncalled	-	-
called capital	-	-
which paid .....	-	-
• Premium, merger, contribution	-	-
• Revaluation	-	-
• legal reserve	-	-
• other reserves	-	-
• Retained earnings (2)	-	-
• Net results pending allocation (2)	-280 257 964,51	-220 308 230,62
• Net profit for the year (2)	-63 222 014,04	-59 949 733,89
<b>Total equity (A)</b>	<b>30 520 021,45</b>	<b>13 742 035,49</b>
<b>ALLIED CAPITAL (B)</b>	-	<b>874 155,18</b>
• Investment grants	-	874 155,18
• regulated provisions	-	-
<b>DEBT FINANCING (C)</b>	<b>296 014 017,64</b>	<b>315 215 531,03</b>
• bonds	-	-
• Other borrowings	296 014 017,64	315 215 531,03
<b>SUSTAINABLE PROVISIONS FOR LIABILITIES AND CHARGES (D)</b>	-	-
• Provisions for risks	-	-
<b>TRANSLATION ADJUSTMENTS-LIABILITIES (E)</b>	-	-
• Increase in nonperforming loans	-	-
• Decrease in borrowings	-	-
<b>TOTAL I (A+B+C+D+E)</b>	<b>326 534 039,09</b>	<b>329 831 721,70</b>
<b>LIABILITIES CURRENT LIABILITIES (F)</b>	<b>117 627 463,86</b>	<b>115 504 857,27</b>
• Accounts payable	67 285 810,24	82 572 358,41
• Customers payable, advance payments	6 422 934,00	6 422 934,00
• staff	94 469,12	105 302,00
• social security	2 350 487,79	2 667 586,46
• State	21 651 499,44	16 194 872,54
• Accounts associated	19 822 263,27	7 541 803,86
• other creditors	-	-
• Adjustment accounts-liabilities	-	-
<b>OTHER PROVISIONS FOR LIABILITIES AND CHARGES (G)</b>	<b>493 894,38</b>	<b>643 607,55</b>
<b>TRANSLATION ADJUSTMENTS-LIABILITIES (Elements circulating) (H)</b>	<b>0,04</b>	<b>50 660,58</b>
<b>TOTAL II (F+G+H)</b>	<b>118 121 358,28</b>	<b>116 199 125,40</b>
<b>CASH-LIABILITIES</b>	<b>67 496 619,59</b>	<b>57 544 586,90</b>
• Discount credits	8 322 349,03	7 670 205,02
• Credits CASH	-	-
• Banking regulation	59 174 270,56	49 874 381,88
<b>TOTAL III</b>	<b>67 496 619,59</b>	<b>57 544 586,90</b>
<b>TOTAL GENERAL I + II + III</b>	<b>512 152 016,96</b>	<b>503 575 434,00</b>

# Statement of Income and Expenses

From 01/01/2016 to 31/12/2016

NATURE	OPERATIONS OF THE YEAR			(Fig. in MAD)
	Relating to	for earlier	Total for	Total for
	the year	years	the year	the previous year
<b>I OPERATING INCOME</b>				
• Sales of goods (as is)	6 715 414,10	-	6 715 414,10	2 465 035,34
• Sales of goods and services produced	296 403 090,76	-	296 403 090,76	288 598 550,73
<b>Turnover</b>	<b>303 118 504,86</b>	<b>-</b>	<b>303 118 504,86</b>	<b>291 063 586,07</b>
• Change in product inventory (+ -) 1)	8 550 682,89	-	8 550 682,89	2 261 675,87
• Produced capital by the company itself	-	-	-	-
• Operating subsidiaries	11 112 894,51	-	11 112 894,51	14 584 518,20
• Other operating income	-	-	-	-
• Operating reversals - transferred charges	-	-	-	-
<b>TOTAL I</b>	<b>322 782 082,26</b>	<b>-</b>	<b>322 782 082,26</b>	<b>307 909 780,14</b>
<b>II OPERATING EXPENSES</b>				
• Purchases resold (2) merchandise	5 871 050,20	-	5 871 050,20	2 086 659,24
• Purchases consumed (2) materials and supplies	137 365 989,74	-	137 365 989,74	137 070 560,99
• Other external expenses	102 693 280,76	-	102 693 280,76	88 774 760,11
• Taxes	30 973 130,45	-	30 973 130,45	24 757 740,24
• Staff costs	53 161 449,91	-	53 161 449,91	48 039 447,40
• Other operating expenses	-	-	-	-
• Operating allowances	35 488 306,53	-	35 488 306,53	40 584 700,07
<b>TOTAL II</b>	<b>365 553 207,59</b>	<b>-</b>	<b>365 553 207,59</b>	<b>341 313 868,05</b>
<b>III OPERATING PROFIT / LOSS (I-II)</b>			<b>-42 771 125,33</b>	<b>-33 404 087,91</b>
<b>IV FINANCIAL INCOME</b>				
• Income from equity securities and other investments	-	-	-	-
• Foreign exchange gains	426 580,94	-	426 580,94	115 079,10
• Interest and other financial products	-	-	-	276 765,41
• Financial reversals - transferred charges	149 713,17	-	149 713,17	-
<b>TOTAL IV</b>	<b>576 294,11</b>	<b>-</b>	<b>576 294,11</b>	<b>391 844,51</b>
<b>V FINANCIAL CHARGES</b>				
• Interest expense	17 856 584,67	-	17 856 584,67	18 031 538,27
• Losses	668 325,57	-	668 325,57	9 846 936,83
• Other financial expenses	-	-	-	-
• financial allocations	-	-	-	578 853,39
<b>TOTAL V</b>	<b>18 524 910,24</b>	<b>-</b>	<b>18 524 910,24</b>	<b>28 457 328,49</b>
<b>VI FINANCIAL PROFIT / LOSS (IV - V)</b>			<b>-17 948 616,13</b>	<b>-28 065 483,98</b>
<b>VII CURRENT PROFIT LOSS (III + VI)</b>			<b>-60 719 741,46</b>	<b>-61 469 571,89</b>

1) Variation de stocks : stock final - stock initial ; augmentation (+) diminution (-)

2) Achats revendus ou consommés : achats - variation de stocks

# Statement of Income and Expenses

From 01/01/2016 to 31/12/2016

NATURE	OPERATIONS OF THE YEAR			(Fig. in MAD)
	Relating to	for earlier	Total for	Total for
	the year	years	the year	the previous
<b>VII CURRENT PROFIT LOSS (III + VI)</b>			<b>-60 719 741,46</b>	<b>-61 469 571,89</b>
<b>VIII NON-CURRENT INCOME</b>				
• Proceeds from sale of capital	83 333,32	-	83 333,32	11 699,99
• Balancing subsidy	-	-	-	-
• Reversal of capital grants	874 155,18	-	874 155,18	2 324 567,80
• Other non-current accruals	28 573,72	-	28 573,72	3 607 106,49
• Non-current reversals transferred charges	-	-	-	-
<b>TOTAL VIII</b>	<b>986 062,22</b>	<b>-</b>	<b>986 062,22</b>	<b>5 943 374,28</b>
<b>IX NON-CURRENT EXPENSES</b>				
• Net value of depreciation for assets sold	-	-	-	359 406,58
• grants	-	-	-	-
• Other non-current expenses	1 881 767,80	-	1 881 767,80	2 776 759,70
• Allocations to non-current amortization and provisions	-	-	-	-
<b>TOTAL IX</b>	<b>1 881 767,80</b>	<b>-</b>	<b>1 881 767,80</b>	<b>3 136 166,28</b>
<b>X NON-OPERATING PROFIT / LOSS</b>			<b>-895 705,58</b>	<b>2 807 208,00</b>
<b>XI PROFIT / LOSS BEFORE TAXES (+ VII - X)</b>			<b>-61 615 447,04</b>	<b>-58 662 363,89</b>
<b>XII CORPORATE INCOME TAX</b>			<b>1 606 567,00</b>	<b>1 287 370,00</b>
<b>XIII NET (XI-XII)</b>			<b>-63 222 014,04</b>	<b>-59 949 733,89</b>
<b>XIV TOTAL OF INCOMES (I + IV + VIII)</b>			<b>324 344 438,59</b>	<b>314 244 998,93</b>
<b>XV TOTAL OF EXPENSES (II + V + IX + XII)</b>			<b>387 566 452,63</b>	<b>374 194 732,82</b>
<b>XVI NET PROFIT / LOSS</b>			<b>-63 222 014,04</b>	<b>-59 949 733,89</b>
(Total of income - Total of expenses)				



Mozambique

# Owner's Responsibility Statement

## For the year ended 31 December 2016

### OWNERS' RESPONSIBILITY STATEMENT

The owners are responsible for the preparation and fair presentation of the annual financial statements of the company comprising the Statement of financial position at **31 December, 2016**, and statements of comprehensive income for the year then ended as well as the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes in accordance with General Accounting plan for small and other Companies (PGC-PE).

The owners' responsibility includes – designing, implementing and maintaining internal control relevant to the presentation of these financial statements that are free from material misstatement, whether due to fraud or error – selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The owners acknowledge that they are ultimately responsible for the system of internal financial control established by the business and place considerable importance on maintaining a strong control environment. To enable the owners to meet these responsibilities, they set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include a proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the business and all employees are required to maintain the highest ethical standards in ensuring that business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the business is on identifying, assessing, managing and monitoring all known forms of risk across the business. While operating risk cannot be fully eliminated, the business endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The owners are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The owners have reviewed the business's cash flow forecast for the year ending **31 December, 2016** and, in the light of this review and the current financial position, are satisfied that the business has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the business's financial statements. The financial statements have been examined by the business's external auditors and their report is presented on page ahead.

### APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of **Varun Beverages Mozambique, Lda** as set out on pages ahead, were prepared on the going concern basis and approved by the Board of Directors on 31 January, 2017 and signed on its behalf by:

**Nand Kishore**

Account / Finance Manager

**Nupil Kumar**

Director



# Independent Auditors' Report

## To the Members of Varun Beverages Mozambique, Lda

We have audited the annual financial statements of **Varun Beverages Mozambique, Lda** which comprise the Statement of financial position at **31 December, 2016** and the statements of comprehensive income for the year then ended together with the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages ahead.

### OWNERS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The owners are responsible for the preparation and fair presentation of these financial statements in accordance with General Accounting plan for small and other Companies (PGC-PE). This responsibility includes – designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error – selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

**We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.**

### OPINION

In our opinion, the financial statements present fairly in all material respects the financial position of **Varun Beverages Mozambique, Lda at 31 December, 2016** and of its financial performance for the year then ended in accordance with General Accounting plan for small and other Companies (PGC – PE).

### EMPHASIS OF MATTER

At the balance sheet date the financial statements showed a negative net worth of MZN 44 485 120 In preparing the financial statements, as regards the going concern situation, it has been assumed that the company will:

- Obtain and maintain financial backing from the quota-holders or the company's bankers;
- Increase its social capital; or
- Have profitable results in future

Under the current Mozambique Commercial Code, Article 119 states that the net worth of the company cannot be less than 50% of the issued capital social. If this situation arises, necessary measures are to be taken at General Assembly of the company to be approved by the quota holder in order to avoid the application of remedial actions referred in the said Article 119.

**C.W. Ducker & Associadoss, Limitada**

Maputo, 31 January, 2017.

# Statement of Financial Position

As At December 31, 2016

	Notes	(Expressed in Mozambican maticais)	
		31-12-2016	31-12-2015
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>		<b>175,229,638</b>	<b>217,124,356</b>
TANGIBLE ASSETS	2.2 b) 3	175,229,638	217,124,356
<b>CURRENT ASSETS</b>		<b>122,346,673</b>	<b>106,722,988</b>
INVENTORIES	4	72,944,950	68,719,029
TRADE RECEIVABLES	5	32,955,528	25,890,640
CASH AND CASH EQUIVALENTS	6	11,393,778	6,717,767
SHORT TERM LOANS & ADVANCES	7	2,794,984	4,306,577
OTHER CURRENT ASSETS	8	2,257,432	1,088,975
<b>TOTAL ASSETS</b>		<b>297,576,311</b>	<b>323,847,344</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>		<b>(44,485,120)</b>	<b>(434,840,784)</b>
SHARE CAPITAL	9	100,000	100,000
RESERVE & SURPLUS	10	(44,585,120)	(434,940,784)
<b>NON-CURRENT LIABILITIES</b>		<b>225,674,880</b>	<b>536,629,917</b>
LONG TERM BORROWING FROM PROMOTERS	11	128,322,000	451,179,762
OTHER LONG TERM LIABILITIES	12	97,352,880	85,450,155
<b>CURRENT LIABILITIES</b>		<b>116,386,551</b>	<b>222,058,212</b>
SHORT TERM BORROWINGS FROM BANKS	13	(118,976)	17,467,779
TRADE PAYABLES	14	104,129,488	162,047,711
OTHER CURRENT LIABILITIES	15	12,376,039	42,542,722
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>297,576,311</b>	<b>323,847,345</b>

# Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	(Expressed in Mozambican maticais)	
		31-12-2016	31-12-2015
<b>REVENUE</b>	16	269,368,164	268,457,788
COST OF MATERIAL CONSUMED	17	(114,206,549)	(120,405,190)
<b>GROSS PROFIT</b>		<b>155,161,616</b>	<b>148,052,598</b>
OTHER INCOME	18	303,147,305	1,786,735
CHANGES IN INVENTORIES OF FINISHED GOODS	19	154,830	379,376
DIRECT MANUFACTURING EXPENSES	20	(20,969,318)	35,026,351
EMPLOYEE BENEFIT EXPENSES	21	(106,866,115)	(87,199,678)
SELLING & DISTRIBUTION EXPENSES	22	(25,579,945)	(49,149,738)
DEPRECIATION FOR THE YEAR	3	(40,966,537)	(45,939,974)
OTHER EXPENSES	23	33,817,095	(51,595,634)
<b>OPERATING PROFIT/(LOSS)</b>		<b>297,898,931</b>	<b>(118,692,665)</b>
FINANCIAL CHARGES FOR THE YEAR	24	92,556,732	(157,056,874)
INCOME TAX EXPENSES		(100,000)	(200,000)
<b>COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR</b>		<b>390,355,664</b>	<b>275,949,540</b>

# Significant Accounting Policies

For the year ended 31 December 2016

## 1. INCORPORATION AND ACTIVITIES

The company is a privately owned quota capital company with limited liability, incorporated in 2008 with its head office in Maputo, Mozambique. Its main activity is production and commercialization of soft drinks.

## 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

#### 2.1.1 Statement of compliance

The financial statements have been prepared in accordance with General Accounting plan for small and other Companies (PGC – PE).

#### 2.1.2 Basis of measurement

The financial statements are prepared on a historical cost basis.

#### Functional currency

The company's functional currency is the Mozambican metical, being the currency of the primary economic environment in which it operates and the currency in which accounting records are maintained.

#### 2.1.3 Going Concern

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

### 2.2 Summary of significant accounting policies

The accounting policies set out below, have been applied consistently to all periods in the financial statements, except where specifically stated.

#### a) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on the translations are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. In accordance with current Mozambican PGC-PE, exchange differences on long-term assets and liabilities are treated loss or gain for the year in the income statement.

#### b) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, at the pre-determined rates in accordance with Mozambican fiscal laws. The annual depreciation rates in respect of the major categories of property, plant and equipment are as follows:

Type of asset	%
Leasehold buildings	33.33
Plant and machinery	5 to 25
Motor vehicles	20 to 25
Empty glass, pallets and shells	10 to 25
Office equipment	10 to 20
Intangible assets	33.33

Depreciation methods, useful lives and residual values are re-assessed at the reporting date.

# Significant Accounting Policies

For the year ended 31 December 2016

Gains or losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating results.

c) Impairment of non-financial assets

The carrying amounts of the company's non-financial assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

d) Revenue recognition

Sales are recognized upon delivery of the products and customer acceptance, if any, or performance of services, net of trade discounts and value added tax.

e) Taxation

Income tax on the profits of an accounting period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity in which case, it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of prior years.

f) Provisions

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of past events and it is possible that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

g) Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise cash in hand, bank balances and deposits held with bankers. Bank overdrafts are shown as current liabilities.

# Notes to the Financial Statements

For the year ended 31 December 2016

(Expressed in Mozambican maticais)

## 3. NON-CURRENT ASSETS

### Property, plant and equipment

	<b>31-12-2016</b>	<b>31-12-2015</b>
<b>COSTS</b>		
Balance as at 1 January	500,807,055	471,845,722
Additions during the year	3,543,807	31,242,528
Disposal during the year	(6,328,393)	(2,281,194)
<b>Balance as at 31 December</b>	<b>498,022,470</b>	<b>500,807,055</b>
<b>DEPRECIATION</b>		
Balance as at 1 January	283,682,699	239,575,911
Additions during the year	40,966,537	45,939,974
Write off on Disposal	(1,856,404)	(1,833,186)
<b>Balance as at 31 December</b>	<b>322,792,832</b>	<b>283,682,699</b>
<b>Net Book Value</b>	<b>175,229,638</b>	<b>217,124,356</b>

## 4. INVENTORIES

	<b>31-12-2016</b>	<b>31-12-2015</b>
FINISHED GOODS (MANUFACTURED GOODS)	8,918,371	8,852,004
FINISHED GOODS (TRADING)	395,796	307,333
RAW MATERIAL	51,531,026	49,300,491
GOODS IN TRANSIT-RAW MATERIAL	-	1,959,244
CONSUMABLES	12,099,757	8,299,958
<b>TOTAL</b>	<b>72,944,950</b>	<b>68,719,029</b>

## 5. TRADE RECEIVABLES

	<b>31-12-2016</b>	<b>31-12-2015</b>
TRADE RECEIVABLES	36,380,803	42,035,387
PROVISION FOR DOUBTFULL DEBTORS	(3,425,275)	(16,144,747)
<b>TOTAL</b>	<b>32,955,528</b>	<b>25,890,640</b>

## 6. CASH & CASH EQUIVALENTS

	<b>31-12-2016</b>	<b>31-12-2015</b>
CASH BALANCE	195,965	753,865
BANK BALANCE	11,197,814	5,963,902
<b>TOTAL</b>	<b>11,393,778</b>	<b>6,717,767</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

(Expressed in Mozambican maticais)

## 7. SHORT TERM LOAN & ADVANCES

	<b>31-12-2016</b>	<b>31-12-2015</b>
STAFF ADVANCE & IMPREST	602,917	1,029,746
ADVANCE TO SUPPLIERS & CONTRACTORS	2,192,067	3,276,831
<b>TOTAL</b>	<b>2,794,984</b>	<b>4,306,577</b>

## 8. OTHER CURRENT ASSETS

	<b>31-12-2016</b>	<b>31-12-2015</b>
SECURITY DEPOSIT PAID	2,035,221	926,579
PRE-PAID EXPENSES	222,211	162,396
<b>TOTAL</b>	<b>2,257,432</b>	<b>1,088,975</b>

## 9. SHARE CAPITAL

	<b>31-12-2016</b>	<b>31-12-2015</b>
VARUN BEVERAGES LIMITED	51,000	0
ANIXA HOLDING LDA	49,000	49,000
ARTIC INTERNATIONAL PRIVATE LIMITED	0	51,000
<b>TOTAL</b>	<b>100,000</b>	<b>100,000</b>

## 10. RESERVE & SURPLUS

	<b>31-12-2016</b>	<b>31-12-2015</b>
ACCUMULATED RESULTS	(434,940,784)	(158,991,244)
PROFIT / (LOSS) FOR THE YEAR	390,355,664	(275,949,540)
<b>TOTAL</b>	<b>(44,585,120)</b>	<b>(434,940,784)</b>

## 11. LONG TERM BORROWINGS FROM PROMOTERS

	<b>31-12-2016</b>	<b>31-12-2015</b>
ANIXA HOLDING LTD.	-	41,411,962
ARTIC INTERNATIONAL PRIVATE LIMITED	-	316,209,400
VARUN BEVERAGES LIMITED	128,322,000	-
CAPITAL INFRASTRUCTURE	-	48,578,400
INDUS PROCUREMENT LIMITED	-	44,980,000
<b>TOTAL</b>	<b>128,322,000</b>	<b>451,179,762</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

(Expressed in Mozambican maticais)

## 12. OTHER LONG TERM LIABILITIES

	<b>31-12-2016</b>	<b>31-12-2015</b>
SECURITY DEPOSIT - EMPTY BOTTLE & SHELLS	42,941,921	44,262,852
ABC BANK - VEHICLE LOAN	7,973,631	10,436,497
ABC BANK - TERM LOAN	46,437,329	30,750,806
<b>TOTAL</b>	<b>97,352,880</b>	<b>85,450,155</b>

## 13. BANK SHORT-TERM BORROWINGS

	<b>31-12-2016</b>	<b>31-12-2015</b>
OVERDRAFT FACILITY - ABC	(118,976)	17,467,779
<b>TOTAL</b>	<b>(118,976)</b>	<b>17,467,779</b>

## 14. TRADE PAYABLES

	<b>31-12-2016</b>	<b>31-12-2015</b>
TRADE PAYABLES	104,129,488	162,047,711
<b>TOTAL</b>	<b>104,129,488</b>	<b>162,047,711</b>

## 15. OTHER CURRENT LIABILITIES

	<b>31-12-2016</b>	<b>31-12-2015</b>
ADVANCE FROM DEBTORS	444,022	4,119,088
AMOUNT PAYABLE TO STAFF	1,285,816	4,641,929
CHEQUES ISSUED BUT NOT PRESENTED FOR PAYMENT	3,398,103	5,381,484
GOVERNMENT LIABILITIES	315,571	6,563,271
EXPENSES PAYABLES	6,932,527	21,836,950
<b>TOTAL</b>	<b>12,376,039</b>	<b>42,542,722</b>

## 16. REVENUE

	<b>31-12-2016</b>	<b>31-12-2015</b>
LOCAL SALES MANUFACTURED GOODS	218,127,263	245,121,286
EXPORT SALES MANUFACTURED GOODS	46,609,780	26,751,024
LOCAL SALES TRADING GOODS	19,779,267	18,105,735
TRADE DISCOUNT	(15,148,146)	(21,520,258)
<b>TOTAL</b>	<b>269,368,164</b>	<b>268,457,788</b>



# Notes to the Financial Statements

For the year ended 31 December 2016

(Expressed in Mozambican maticais)

## 17. COST OF MATERIAL CONSUMED

	<b>31-12-2016</b>	<b>31-12-2015</b>
RAW MATERIAL CONSUMED	108,781,099	107,908,626
TRADING BEVERAGES PURCHASE	2,586,908	6,962,277
CONSUMABLES CONSUMED	2,838,542	5,534,286
<b>TOTAL</b>	<b>114,206,549</b>	<b>120,405,190</b>

## 18. OTHER INCOME

	<b>31-12-2016</b>	<b>31-12-2015</b>
FREIGHT RECOVERED	760,435	1,662,961
MISC RECEIPT	302,075,434	-
SALE OF SCRAP	128,161	123,774
PROFIT ON SALE OF ASSETS	183,276	-
<b>TOTAL</b>	<b>303,147,305</b>	<b>1,786,735</b>

## 19. CHANGES IN INVENTORIES OF FINISHED GOODS

	<b>31-12-2016</b>	<b>31-12-2015</b>
OPENING STOCK OF FINISHED GOODS	9,159,337	8,779,961
CLOSING STOCK OF FINISHED GOODS	(9,314,167)	(9,159,337)
<b>TOTAL</b>	<b>(154,830)</b>	<b>(379,376)</b>

## 20. DIRECT MANUFACTURING EXPENSES

	<b>31-12-2016</b>	<b>31-12-2015</b>
WATER CONSUMED	3,408,132	2,866,716
LABOUR CHARGES	6,867,996	9,034,561
REPAIR & MAINTENANCE	2,707,559	13,977,045
POWER & FUEL	7,985,632	9,148,028
<b>TOTAL</b>	<b>20,969,318</b>	<b>35,026,351</b>

## 21. EMPLOYEE BENEFIT EXPENSES

	<b>31-12-2016</b>	<b>31-12-2015</b>
SALARIES, WAGES AND STAFF INCENTIVES	100,968,408	82,993,978
STAFF WELFARE EXPENSES	2,079,269	1,896,058
GUEST HOUSE EXPENSES	3,818,438	2,309,643
<b>TOTAL</b>	<b>106,866,115</b>	<b>87,199,678</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

(Expressed in Mozambican maticais)

## 22. SELLING & DISTRIBUTION EXPENSES

	31-12-2016	31-12-2015
DISTRIBUTION EXPENSES	17,092,956	21,451,451
ADVERTISEMENT & PUBLICITY EXPENSES	2,676,280	4,949,662
BREAKAGE & LEAKAGE	1,371,914	1,913,727
SELLING EXPENSES	3,123,652	4,690,150
PROVISION FOR DOUBTFUL DEBTORS	1,315,143	16,144,747
<b>TOTAL</b>	<b>25,579,945</b>	<b>49,149,738</b>

## 23. OTHER EXPENSES

	31-12-2016	31-12-2015
GENERAL, ADMINISTRATION & OFFICE EXPENSES	(46,892,351)	39,860,456
MISCELLANEOUS EXPENSES CONTROL	1,348,439	2,149,609
POSTAGE, TELEPHONE & MAINTENANCE EXPENSES	1,499,844	1,487,294
TRAVELLING & CONVEYANCE	5,418,695	4,178,236
VEHICLE RUNNING & MAINTENANCE EXPENSES	3,525,298	3,920,039
LAND MAINTENANCE TAX	1,282,980	-
<b>TOTAL</b>	<b>(33,817,095)</b>	<b>51,595,634</b>

## 24. FINANCIAL CHARGES

	31-12-2016	31-12-2015
INTEREST COST	12,809,228	10,104,902
BANK CHARGES	1,075,565	890,079
EXCHANGE FLUCTUATION - REALISED	20,401,915	44,897,243
EXCHANGE FLUCTUATION - UNREALISED	(119,895,576)	101,164,650
INTEREST OTHERS	(6,947,864)	-
<b>TOTAL</b>	<b>(92,556,732)</b>	<b>157,056,874</b>

## 25. RELATED PARTY TRANSACTIONS

Company	Nature of relationship	Nature of Transaction	Balance at 31 December 2016	Balance at 31 December 2015
Anixa Holding Ltd.	Shareholder	Shareholder loans	-	41,411,962
Arctic International Private Limited	Shareholder	Shareholder loans	-	316,209,400
Varun Beverages Limited	Shareholder	Shareholder loans	128,322,000	-

There were related party transactions during the period under review and the resulting balances are described above.

## 26. CAPITAL COMMITMENTS

At balance sheet date, there were no capital commitments.

## 27. CONTINGENT LIABILITIES

At balance sheet date, there were no contingent liabilities.

## 28. SUBSEQUENT EVENT

The company is managing to obtain loans from the Shareholders to finance its activities during the next twelve (12) months.



Zimbabwe

# Report of the Directors

The directors submit their report and the audited financial statements for the year ended December 31, 2016, which disclose the state of affairs of the company.

## Principal activities

The principal activity of the company is manufacturing, sale and distribution of carbonated soft drinks and bottled water.

	2016	2015
		(Fig. in US\$)
<b>Results</b>		
Profit /(loss) before tax	58,290	2,428
Tax (charge)	(14,569)	(381)
Profit /(loss) for the year	43,721	2,047

## Dividend

The Directors do not recommend the payment of a dividend for the period.

## Directors

Following are the Directors who held office during the year and to the date of this report:

- i) Lowe Andrew Worsley
- ii) Iyer Shankar Krishnan
- iii) Das Diptiman

## Independent Auditor

The company's auditor, A A Omar & Company, has expressed willingness to continue in office in accordance with Companies Act.

By order of the board

### Iyer Shankar Krishnan

Director

Harare

February 6, 2017

# Statement of Directors' Responsibility

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:

- i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements;
- ii) selecting and applying appropriate accounting policies; and
- iii) making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at December 31, 2016 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Zimbabwe Companies Act.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on February 6, 2017 and signed on its behalf by:

**Iyer Shankar Krishnan**

Director

Sd/-  
Signature

**Andrew Lowe**

Director

Sd/-  
Signature

# Independent Auditor's Report

## To the Shareholders of Varun Beverages (Zimbabwe) (Private) Limited

We have audited the financial statements of Varun Beverages (Zimbabwe) (Private) Limited (the "Company"), which comprise the statement of financial position as at December 31, 2016 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, set out on pages ahead.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Zimbabwe (Chapter 24:03), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **OPINION**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the period then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Zimbabwe (Chapter 24:03).

### **A. A. Omar & Company**

Chartered Accountants (Zimbabwe)

Harare  
February 6, 2017

# Summary of Significant Accounting Policies and other Explanatory Information

For the Year ended December 31, 2016

## ACCOUNTING CONVENTION

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards, ("IFRS") and International Financial Reporting Interpretations Committee, ("IFRS IC") interpretations and the requirements of the Companies Act of Zimbabwe (Chapter 24:03).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

## CURRENCY

The financial statements are expressed in United States dollars.

## GOING CONCERN

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current financing.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company therefore continues to adopt the going concern basis in preparing its financial statements.

## ASSETS AND DEPRECIATION

### Recognition and measurement

Items of equipment are measured at historical cost less accumulated depreciation and impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the cost of dismantling the asset and removing items and restoring site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Where parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

### Subsequent costs

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day to day servicing of equipment is recognized in profit or loss as incurred.

Fixed assets are depreciated at the following rates on straight line basis:

Motor vehicles	-20%
Computer equipment	-20%
Office equipment	-20%
Furniture and fittings	-20%

Depreciation methods, useful lives and residual values are reassessed at each reporting date. Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

The carrying amounts of the Company's items of equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount exceeds its recoverable amount.

# Summary of Significant Accounting Policies and other Explanatory Information

For the Year ended December 31, 2016

An assets' carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than the estimated recoverable amount.

## Derecognition

The carrying amount of an item of equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

## PRE-OPERATIVE EXPENSES

The company incurred costs which are strictly related to the erection and installation of a manufacturing process of soft drinks and which the directors have resolved to capitalize.

## Financial instruments

In accordance with IAS 39, 'Financial instruments: recognition and measurement', all financial assets and liabilities have to be recognized in the statement of financial position and measured in accordance with their assigned category.

## Financial assets

The Company classifies its financial assets in the following categories; at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than;

- a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- b) those that the entity upon initial recognition designates as available for sale; or
- c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Loans and advances are stated net of allowances for impairment.

## Financial liabilities

The Company's financial liabilities are measured at amortized cost. Financial liabilities measured at amortized cost include lines of credit, amounts due to group companies and trade and other liabilities. The Company derecognizes a financial liability when its contractual obligations are discharged or canceled or have expired.

## Revenue recognition

The Company recognizes revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Company activities as described below.

Revenue is measured at the fair value of the consideration received or receivable. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, measurement of the associated costs incurred to earn the revenue.

## STOCK

Stock is valued at the lower of cost, established on the moving weighted average basis, and estimated net realisable value.



# Income Statement

For the Year ended December 31, 2016

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Revenue	7,512,478	196,820
Other income	26	-
<b>Total income</b>	<b>7,512,504</b>	<b>196,820</b>
Costs of sales	(6,621,177)	(179,113)
<b>Total net income</b>	<b>891,327</b>	<b>17,707</b>
Depreciation	(2,692)	(500)
Operating expenses	(830,345)	(14,779)
<b>Profit before income tax</b>	<b>58,290</b>	<b>2,428</b>
Income tax expense	(14,569)	(381)
<b>Profit for the year</b>	<b>43,721</b>	<b>2,047</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>43,721</b>	<b>2,047</b>

# Balance Sheet

As At December 31, 2016

		(Fig. in US\$)	
	Notes	31 December 2016	31 December 2015
<b>Assets</b>			
<b>Non Current Assets</b>			
Property and equipment	3	1,114,704	564,608
<b>Current Assets</b>			
Inventory	4	745,036	40,831
Trade and other receivables	5	2,985,619	227,597
Short term advance	6	3,747,722	3,500,000
Cash Resources		1,454,456	46,998
		8,932,833	3,815,426
<b>Total Assets</b>		<b>10,047,537</b>	<b>4,380,034</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	7	1,100	100
Retained profit		45,768	2,047
Shareholders equity		46,868	2,147
<b>Non Current Liabilities</b>			
Loans	8	5,500,000	3,500,000
<b>Current Liabilities</b>			
Trade and other payables	9	705,337	160,435
Affiliated companies	10	3,796,292	717,071
Taxation	2	(961)	381
		4,500,668	877,887
<b>Total Equity and Liabilities</b>		<b>10,047,537</b>	<b>4,380,034</b>

**Iyer Shankar Krishnan**

Director

**Andrew Lowe**

Director

February 6, 2017

# Statement of Changes in Equity

For the year ended December 31, 2016

	(Fig. in US\$)			
	Share Capital	Capital Redemption Reserve Fund	Retained Profits	Total Equity
<b>Five months ended December 31, 2015</b>				
Balance as at August 1, 2015	100	-	-	100
Profit for the period	-	-	2,047	2,047
<b>Total comprehensive income</b>	100	-	2,047	2,047
<b>Balance as at December 31, 2015</b>	100	-	2,047	2,047
<b>Year ended December 31, 2016</b>				
Balance as at January 1, 2016	100	-	2,047	2,047
Issue of shares	1,100	-	-	1,100
Redemption of shares	(100)	-	-	(100)
Transfer to capital redemption reserve fund	-	100	(100)	-
Capital redemption reserve written off	-	(100)	100	-
Profit for the period	-	-	43,721	43,721
<b>Total comprehensive income</b>	1,100	-	45,768	46,868
<b>Balance as at December 31, 2016</b>	1,100	-	45,768	46,868

# Statement of Cash Flows

For the year ended December 31, 2016

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Cash flows from operating activities</b>		
Profit before income tax	58,290	2,428
<b>Adjustments for non cash items:</b>		
Depreciation	2,692	500
<b>Operating cash flows before changes in working capital</b>	<b>60,982</b>	<b>2,928</b>
<b>Changes in working capital:</b>		
Increase in Inventory	(704,205)	(40,831)
Increase in other receivables	(2,758,022)	(227,597)
Increase in short term advance	(247,722)	(3,500,000)
Increase in trade and other payables	544,902	160,435
Increase in amounts due to group companies	3,079,221	717,071
<b>Net cash flows (used in)/generated from operating activities</b>	<b>(24,843)</b>	<b>(2,887,994)</b>
Income tax paid	(15,911)	-
<b>Net cash (used in)/ generated from operating activities</b>	<b>(40,754)</b>	<b>(2,887,994)</b>
<b>Cash flows from investing activities</b>		
Purchase of equipment	(552,788)	(565,108)
<b>Net cash used in investing activities</b>	<b>(552,788)</b>	<b>(565,108)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	1,000	100
Proceeds from long term borrowings	2,000,000	3,500,000
<b>Net cash (used in)/ generated from financing activities</b>	<b>2,001,000</b>	<b>3,500,100</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>1,407,458</b>	<b>46,998</b>
Cash and cash equivalents at the beginning of the period	46,998	-
<b>Cash and cash equivalents as at December 31, 2016</b>	<b>1,454 456</b>	<b>46,998</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 1. BUSINESS

Importation and distribution of beverages		
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## 2. TAXATION

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Income tax-current year	14,569	381
-amounts paid	(15,530)	-
	<b>(961)</b>	<b>381</b>

## 3. PROPERTY AND EQUIPMENT

	(Fig. in US\$)			
	Cost	Aggregate Depreciation	Net Book Value	Net Book Value
Pre-operative expenses	1,090,636	-	1,090,636	559,108
Motor vehicles	16,800	2,619	14,181	5,500
Computer equipment	4,835	236	4,599	-
Office equipment	2,689	24	2,666	-
Furniture and fittings	2,936	315	2,621	-
	<b>1,117,896</b>	<b>3,192</b>	<b>1,114,704</b>	<b>564,608</b>

## 4. INVENTORY

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Goods for resale	670,816	40,831
Goods in transit	74,220	-
	<b>745,036</b>	<b>40,831</b>

## 5. TRADE AND OTHER RECEIVABLES

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade	1,558,912	21,597
Other	1,426,707	206,000
	<b>2,985,619</b>	<b>227,597</b>

# Notes to the Financial Statements

For the year ended December 31, 2016

## 6. SHORT TERM ADVANCE

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Advance paid for purchase of land (NMB Bank Limited)	3,747,722	3,500,000

The mortgage loan has been advanced to facilitate the purchase of land stand number 1824 Ardbennie and accrues interest at the rate of 7% per annum. The facility is secured over stand 1824 Ardbennie.

## 7. SHARE CAPITAL

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Authorised shares	1,900	2,000
1,900 Ordinary shares of \$1 each	100	-
100 Redeemable Preference shares of \$1 each	2,000	2,000
Issued and fully paid		
100 Ordinary shares of \$1 each (converted to Preference shares during the period and redeemed)	-	100
Additional shares issued and fully paid-1,100 of \$1 each	1,100	-
	<b>1,100</b>	<b>100</b>

The unissued shares are under the control of the directors

## 8. LOANS

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
NMB Bank Limited	3,500,000	3,500,000
Varun Beverages Limited, Gurgaon, India	2,000,000	-
	<b>5,500,000</b>	<b>3,500,000</b>

The company secured a credit facility of \$3 500 000.00 from NMB Bank Limited on 29.12.2015 which is specifically earmarked for the purchase of land situated at number 1824 Ardbennie Township, Harare.

This facility bears interest at the rate of 7% per annum, and is payable in 15 years.

The loan from Varun Beverages Limited, Gurgaon, India is for a period of 8 years bearing an interest rate of LIBOR+4% p.a, with no fixed repayment terms.

# Notes to the Financial Statements

For the year ended December 31, 2016

## 9. TRADE AND OTHER PAYABLES

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade	205,256	21,482
Other	500,081	138,953
	<b>705,337</b>	<b>160,435</b>

## 10. AFFILIATED COMPANIES

	(Fig. in US\$)	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Varun Beverages (Zambia) Limited	3,507,437	717,071
Varun Beverages Mozambique LDA	288,855	-
	<b>3,796,292</b>	<b>717,071</b>

## 11. RETIREMENT BENEFITS

All eligible employees are contributory members of the National Social Security Authority pension scheme.

# Schedules to the Financial Statements

For the year ended December 31, 2016

				(Fig. in US\$)	
				31 December 2016	31 December 2015
FIXED ASSETS AND DEPRECIATION	Cost	Aggregate Depreciation	Net Book Value	Depreciation for the Year	Depreciation for the Year
<b>Pre-operative expenses</b>					
January 1, 2016	559,108	-	559,108		
Addition	531,528	-	531,528		
	1,090,636	-	1,090,636		
<b>Motor vehicles</b>					
January 1, 2016	6,000	500	5,500		
Addition: Toyota Mark 11	5,500	-	5,500		
Toyota Mark 11	5,300	-	5,300		
	16,800	500	16,300		
Depreciation-20%	-	2,119	2,119	2,119	500
	16,800	2,619	14,181		
<b>Computer equipment</b>					
January 1, 2016	-	-	-		
Addition: Computers and printers	4,835	-	4,835		
	4,835	-	4,835		
Depreciation-20%	-	236	236	236	-
	4,835	236	4,599		
<b>Office equipment</b>					
January 1, 2016	-	-	-		
Addition: Mobile phones	2,264	-	2,264		
Projector	425	-	425		
	2,689	-	2,689		
Depreciation-20%	-	24	24	24	-
	2,689	24	2,666		
<b>Furniture and fittings</b>					
January 1, 2016	-	-	-		
Addition: Furniture	2,588	-	2,588		
Chairs	348	-	348		
	2,936	-	2,936		
Depreciation-20%	-	315	315	315	-
	2,936	315	2,621		
<b>Depreciation Per Income Statement</b>				2,692	500
<b>OPERATING EXPENSES</b>					
Selling and distribution expenses				309,192	3,809
Salaries and wages				277,216	8,400
General and administration expenses				243,937	2,570
				830,345	14,779



# Income Tax Expense

For the year ended December 31, 2016

## INCOME TAX EXPENSE-DECEMBER 31, 2016

	(Fig. in US\$)	
	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Charge for the year</b>		
Current income tax:		
- charge for the year	14,569	381
- prior year under provision	-	-
- deferred income tax provision	-	-
Income tax expense	<u>14,569</u>	<u>381</u>







## **Varun Beverages Limited**

RJ Corp House, Plot No. - 31, Institutional Area,  
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